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Annual Report 2002
Insurance Corporation of British Columbia

ICBC

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ICBC AT A GLANCE

Insurance Corporation of British Columbia is a provincial crown corporation established in 1973 to provide universal auto insurance (Autoplan) to BC motorists.

ICBC provides vehicle and driver licensing services and vehicle registration services on behalf of government.

ICBC is one of Canada's largest property & casualty insurers with over $2.6 billion in premiums, $6.1 billion in assets, and approximately 5,100 employees.

ICBC offers Autoplan products to more than 2.7 million motorists through a network of over 900 brokers and provides claims handling services at 40 locations throughout BC.

ICBC invests in loss management and road safety programs to reduce crashes and auto crime, which benefit customers by minimizing insurance premiums.

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Performance Highlights

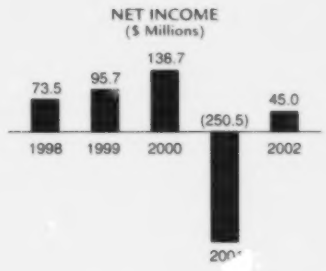
Net income for 2002 of $45.0 million represents a major turnaround from the net loss in 2001, and will be used to rebuild retained earnings.

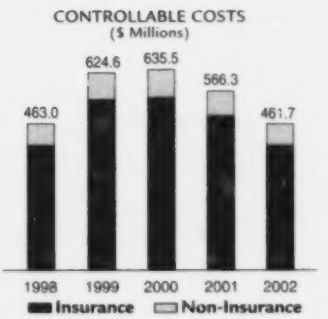
Controllable costs declined by more than 26% over 2000, due to significant reductions in the workforce and in discretionary spending.

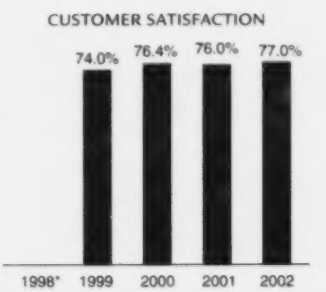
Customer satisfaction levels improved despite the cost reductions undertaken in the year, and employee satisfaction was high.

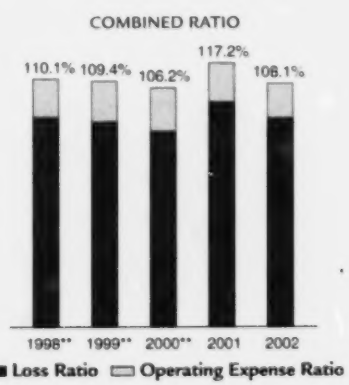
The combined, loss and operating expense ratios are key industry performance measures for profitability and efficiency. These ratios improved significantly in 2002. For 1998-2000, significant favourable prior years' claims adjustments resulted in lower loss and combined ratios.

ICBC's investment yield of 5.7% in 2002 continues to be stronger than most property and casualty (P&C) insurers even though investment income declined to $327.3 million.









* The percentage of satisfied customers was not tracked at the corporate level in 1998, therefore data is unavailable.

** The combined ratio benefited from significant favourable prior years' claims adjustments in these years.

Financial and Operating Comparatives

Five-year comparison For the years ended December 31

	2002	2001	2000	1999	1998
Premiums earned ($000)	**2,628,493**	**2,447,066**	2,387,031	2,382,411	2,368,929
Claims incurred during the year ($000)	**2,193,492**	**2,126,250**	2,006,151	2,080,270	2,134,604
Prior years' claims adjustments ($000)	**(24,791)**	**2,230**	(266,336)	(238,200)	(219,456)
Claims services and operating costs ($000)	**726,884**	**883,515**	915,636	893,806	786,422
Investment income ($000)	**327,269**	**453,955**	625,660	449,188	412,236
Net income (loss) for the year ($000)	**44,968**	**(250,519)**	138,740	95,723	73,465
Investments at year end ($000)	**5,854,883**	**5,536,510**	5,841,304	5,606,029	5,623,297
Unpaid claims ($000)	**4,224,129**	**4,044,312**	3,889,839	3,970,298	3,959,129
Unearned premiums ($000)	**1,293,389**	**1,163,068**	1,111,255	1,100,175	1,102,258
Total assets ($000)	**6,146,949**	**5,824,570**	6,191,408	5,945,610	5,984,391
Retained Earnings ($000)	**314,190**	**269,222**	519,741	381,001	285,278
Autoplan policies earned [1]	**2,705,000**	**2,661,000**	2,614,000	2,572,000	2,552,000
Average premium ($)	**960**	**888**	882	888	893
Claims reported during year	**1,072,000**	**1,105,000**	1,026,000	1,029,000	992,000
Loss ratio:					
Current year (%)	**94**	**100**	98	101	102
Prior years' claims adjustments (%)	**(1)**	**-**	(11)	(10)	(9)
Loss ratio (%) [2]	**93**	**100**	87	91	93
Expense ratio (%) [3]	**15**	**17**	19	18	17
Number of employees [4]	**5,100**	**5,625**	6,436	5,976	5,820

[1] Annualized values have been used for policies with a term of less than 12 months.
[2] Loss ratio is based on current year's claims and related costs and prior years' claims adjustments as a percentage of premiums earned.
[3] Expense ratio is based on insurance operating costs as a percentage of premiums earned, and excludes non-insurance costs, adjustments to deferred premium acquisition costs and one time restructuring costs.
[4] Based on year end full time equivalents.

Certain comparative figures have been restated to conform to the current year's presentation.

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Message from the Chair and President

With the help of our employees and customers, 2002 was a year in which ICBC returned to financial stability. Despite a decrease in investment income of $126.7 million compared to 2001, ICBC recorded net income of $45.0 million for the year and commenced rebuilding its retained earnings, which have been depleted over the past two years.

Controllable expenses have been reduced by more than 26% when compared to the year 2000 and a major reduction in the workforce has been achieved, reducing the number of employees at ICBC to approximately 5,100 from a high of almost 6,500 in April 2001. The reduction in expenses together with an increase in premium revenue of 7.4% over the prior year has more than offset the reduction in investment income and increase in claims costs. The increase in premium revenue includes an increase in the number of basic premiums written of 1.4%, which reflects an increase in the number of vehicles on the road.

The rate increases effected by ICBC, which averaged 7.4% in 2002 and currently average 4.8% for 2003, compare favorably with many other Provinces in Canada. According to the information utilized by Statistics Canada the annual auto insurance rate increase to January 2003 for Alberta and the Maritimes, which are the only other full tort areas in Canada, averaged over 58%[5] in each region as compared to 7.3% in BC.

The cost of claims incurred for the year increased by 3.2% over 2001, with the number of claims reported declining in both injury and property damage, however, the average cost of a claim increased in both cases.

Investment income declined in 2002, resulting in a return on the portfolio for the year of 5.7% as compared to 8.0% for 2001. This decline is due mainly to a decline in capital gains realized as a result of the weak markets experienced during the year and a write down of certain equities to market value at the end of the year.

[5] Source: Statistics Canada, The Consumer Price Index January 2003, Catalogue no. 62-001-XIB, Vol 82, www.statcan.ca

During 2002 the provincial government completed the Core review of ICBC. As a result of this review, the commercial vehicle compliance activities conducted by ICBC in prior years will pass back to the provincial government in 2003. In addition, a new Independent Regulator will be set up to oversee the rates charged by ICBC for basic auto insurance and to ensure that ICBC does not subsidize its competitive optional product with premiums collected on the basic product.

To help us move forward into 2003, ICBC has adopted a new Vision and Mission statement along with a new strategic plan. These will assist ICBC in providing products and services that are valued by its customers at the lowest possible cost while remaining financially sound. It is essential that ICBC remains an equitable and dependable provider of auto insurance in BC and conducts its business in an efficient and effective manner. With the help of its dedicated work force, and loss management and road safety activities, ICBC looks forward to another financially sound year in 2003 while serving its customers who also own the company.

NICK GEER, President,
CEO and Chairman of the Board

Insurance Corporation of British Columbia

VISION

ICBC will be the leading insurance company
in all aspects of its business, operating competitively and valued by its customers.

MISSION

ICBC will be the insurer of choice
delivering insurance products, licensing services, road safety
and other loss management initiatives that are superior, innovative and
valued by our customers at the lowest cost possible.

Our reputation will be as a dependable, fair, equitable and competitive service provider.

We will accomplish this with our dedicated employees
working in a performance based culture achieving operational excellence
with the assistance of our independent broker force and other business partners.

VALUES

Integrity

We value people by treating others with respect and dignity.
We are honest by representing our intentions and ourselves truthfully.
We will be accountable for our performance and ensure decisions made are supportable.

Commitment

We demonstrate commitment as employees by doing our best work at all times.
ICBC leadership demonstrates commitment to employees by creating a work environment
that supports employees in making their best contribution for the benefit of the customer.
We are committed to operating in a cost-effective manner and
will continue to seek ways to improve efficiency.

Dedication to the Customer

We measure our success by our customers' belief
that ICBC products and services provide good value for their money.
We provide excellent customer service by approaching every customer interaction
as an opportunity to create a positive customer experience.

Interview Aids

Corporate Overview

The Insurance Corporation of British Columbia (ICBC) is a provincial crown corporation established in 1973 under the *Insurance Corporation Act*, to provide universal auto insurance to BC motorists. At the time it was set up, ICBC was the sole provider of auto insurance. Soon after inception, the legislation was amended to allow private insurance companies to compete for the optional insurance business. As part of its current mandate, ICBC also provides vehicle licensing and registration services on behalf of the province. In 1996, ICBC merged with the former Motor Vehicle Branch (MVB) assuming responsibility for driver licensing services, road safety programs, and commercial vehicle compliance (e.g. weigh scales and commercial vehicle inspections). As a result of government's Core Services Review, the commercial vehicle compliance function will be transferred to the provincial government in 2003.

ICBC is currently one of BC's largest corporations, and one of Canada's largest property and casualty (P&C) insurers. Through its operations, ICBC employs approximately 5,100 full-time equivalent employees. ICBC's customers are those who pay premiums or fees and consist of all licensed and insured motor vehicle owners and drivers in BC. ICBC also provides services to those involved in crashes or victims of auto crime. ICBC's business partners range from brokers, law enforcement agencies, members of the auto repair industry, and defense lawyers, to health service providers. These partners are involved in different aspects of the insurance and claims processes, such as the purchase of insurance, road safety initiatives, repair or replacement of damaged vehicles, and the provision of medical and rehabilitation services.

The *Insurance Corporation Act* and the *Insurance (Motor Vehicle) Act* govern the corporation. As a crown corporation, ICBC is also subject to legislation such as the *Budget Transparency and Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. In addition, the corporation has administrative, enforcement and other duties and obligations under various motor vehicle related acts.

INSURANCE AND CLAIMS

All motorists in BC are required to purchase a basic package of ICBC Autoplan insurance that provides minimum $200,000 third-party legal liability coverage, accident benefits, underinsured motorist protection, uninsured and hit-and-run motorists protection, and inverse liability coverage. The purpose of insurance is protection against major loss or damage. In the event of a loss, insurance will place the insured – as nearly as possible – in the same position they were prior to the loss. If the insured is responsible for the loss, insurance protects them financially for claims from the injured party. As a business, the primary function of insurance is to spread risk through the collection of premiums from many to pay for the losses of a few – where the amount of premium reflects the risk of loss. The basic package provides coverage within Canada and the United States. ICBC's basic insurance product provides extensive coverages including an allowance for no-fault accident benefit coverage up to $150,000 per person for medical and rehabilitation expenses.

The auto insurance systems in BC, Alberta and the Maritime provinces are tort based allowing claimants the right to sue the at-fault party for damages. Conversely, Manitoba and Quebec are no-fault jurisdictions with government run auto insurance systems. No-fault insurance restricts the injured party's right to sue for damages. Ontario uses a threshold system, a hybrid of both the tort and no-fault model. Saskatchewan is also a government-run system and is offering residents a choice between a new tort based insurance product (small threshold) and no-fault insurance coverage.

In addition to offering basic insurance, ICBC competes with other insurance companies in the sale of extended third-party legal liability and other optional insurance coverages such as collision and comprehensive. Both the basic and optional insurance coverages are defined in the *Insurance (Motor Vehicle) Act* and its regulations.

ICBC receives in excess of $2.6 billion in insurance premiums from more than 2.7 million customers annually. ICBC subsequently invests these premiums until they are needed to pay claims and provide benefits for customers. Through a network of over 900 independent brokers located throughout the province, ICBC provides Autoplan products, vehicle registration and licensing services. ICBC pays approximately $190 million annually in commissions to brokers. ICBC has an ongoing strategic partnership with brokers to deliver its products and services. In 2002, a Strategic Accord was renewed between ICBC, Credit Union Insurance Services Association (CUISA), and the Insurance Brokers Association of BC (IBABC) confirming this relationship, and is subject only to changes that may come out of the independent regulatory authority.

The Corporation currently processes approximately 1.1 million claims per year through a 24 hour telephone claims handling facility and a province-wide network of 40 claims centres. To service these claims, ICBC contracts with suppliers and service providers in a variety of industries, including auto body and glass shops, towing companies, doctors, physiotherapists, other medical service providers, and legal defense counsel in all parts of the province. These suppliers and service providers are involved in helping claimants to repair their vehicles, recover from injury, or settle their claims with ICBC.

ICBC Autoplan

Notice to Renew
Vehicle Licence and Insurance

151 West Esplanade, North Vancouver BC V7M 3H9
Telephone 604-661-2800 or Toll Free 1-800-663-3051
www.icbc.com

September 25, 2002

SAMPLE JANE
1234 ANY ROAD
SOMEWHERE BC V0V 0V0

plate 000XXX
year 2002
make vehicle
model any model

principal operator SAMPLE JANE
driver's licence no 0000000

Dear Customer:

Just a reminder that your vehicle licence and Autoplan insurance expire on **January 14, 2003.**
To renew, please take this notice and your insurance documents to your local Autoplan broker before the expiry date.
If you cannot attend in person, you may complete the authorization on the back of this notice.

Currently your vehicle is rated for pleasure purposes, and driving to and from work or school beyond 15 kms and is primarily kept in the Lower Mainland, when not in use, at 1234 ANY ROAD, SOMEWHERE, BC V0V 0V0. Based on your current vehicle and coverages, your premiums and licence fees for one year are:

Basic Autoplan insurance:		$XXX
· Third Party Liability		Included
· Accident Benefits		Included
· Underinsured Motorist Protection		Included
· Hit and Run Protection		Included
Optional Autoplan insurance:		
· Additional third party liability	$2,000,000 limit	XXX
· Collision	$300 deductible	XXXX
· Comprehensive	$300 deductible/$200 windshield deductible	XXX
· Roadside Plus		XX
	net insurance cost	$XXXX
	vehicle licence fee	XX
Your discounts and Roadstar Gold Savings total $XXX	**Estimated amount due***	**$XXXX**

***If all drivers in your household have driven for more than 10 years, you may save up to an additional 22% on select Autoplan optional coverages. Contact your local Autoplan broker to obtain these savings.**

Here's additional information worth noting:

- ICBC now requires redeclaration of principal operator on renewal. Please confirm the driver's licence number of the principal operator with your local Autoplan broker.
- Your vehicle may be eligible for Replacement Cost coverage. Your Autoplan broker has the details.
- Car crashes affect all of us. ICBC works in your community with road safety programs aimed at reducing crashes. Please do your part by ensuring your vehicle is driven responsibly. Visit us at www.icbc.com to learn more.

At ICBC, we want to ensure that you receive good value from our products and services. We appreciate your business.
If you have any questions, please contact your local Autoplan broker.

P.N. Geer
President and Chief Executive Officer
Insurance Corporation of British Columbia

WHAT DOES BASIC AUTOPLAN INSURANCE INCLUDE? A

Third-Party Legal Liability

Third-Party Liability coverage protects against claims by others for bodily injury, death or property damage to a limit of $200,000, if someone is injured or property is damaged.

Accident Benefits

Autoplan Accident Benefits help cover you, members of your household or occupants of your vehicle for medical and rehabilitation costs (up to $150,000 per person) if any of you are injured in a motor vehicle crash, regardless of who is at fault. Accident Benefits also provide limited wage benefits, funeral expenses and death benefits.

Underinsured Motorist Protection

As part of Basic Autoplan, Underinsured Motorist Protection provides up to $1 million of coverage to protect you and members of your household from the cost of injuries caused by another driver who does not carry sufficient insurance to pay for claims.

Protection against Hit-and-Run and Uninsured Motorists

In BC, and in most provinces, there is a special fund to pay for bodily injury claims caused by uninsured or unidentified motorists. Because this type of fund does not exist in the Yukon, Northwest and Nunavut territories, and the USA, basic Autoplan provides coverage if an insured is injured or killed by an uninsured or unidentified motorist on a highway in one of these locations.

OPTIONAL INSURANCE COVERAGE

New drivers start paying premiums at a base rate, and earn discounts by driving safely. If a claim-free record is maintained with no chargeable claims for more than nine consecutive years, you qualify as a RoadStar. You receive a 43% discount on your premium for basic insurance, and up to 51% on your premium for optional coverage. After 15 years of claim-free driving, you qualify as RoadStar Gold and are eligible for additional benefits should you have a claim.

Third-Party Legal Liability B

Vehicle owners can choose to increase their Third-Party Legal Liability limit to protect themselves against financial loss arising from claims by others.

Collision C

Collision coverage provides for the repair or replacement of your vehicle if it is damaged as a result of a collision with another vehicle, a person or an object.

Comprehensive D

Comprehensive coverage protects against loss or damage caused by fire, lightning, theft, vandalism, and earthquake. This coverage provides for loss or damage to your vehicle, including windshield, by any cause, other than what is included within collision coverage.

Roadside Plus E

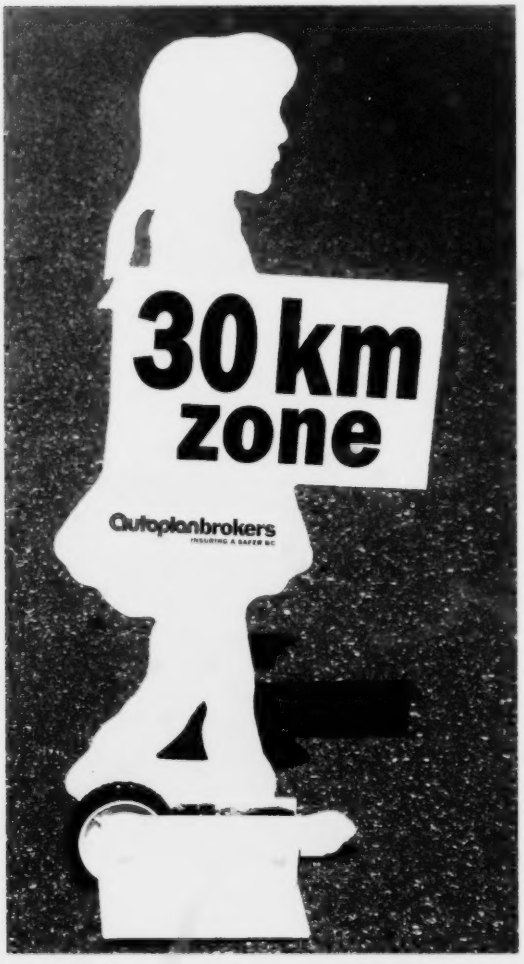
Roadside Plus combines 8 coverages in a package that includes Loss of Use, Travel Protection, Rental Vehicle coverage, Family World Wide Transportation, Lock Re-Keying, Theft Deductible Waiver, Destination Assistance, and Emergency Roadside Expense Repayment.

Note:

The terms and conditions with respect to insurance coverage have been summarized for readability. The full terms and conditions of the insurance coverages offered by ICBC are set out in legislation.

LOSS MANAGEMENT AND ROAD SAFETY

ICBC first began to introduce road safety programs in the early 1990s, and in 1996 was given an expanded mandate to create a safer driving environment throughout the province. ICBC focused on road improvements and better vehicle design, better driver education, support for enhanced traffic law enforcement and a comprehensive graduated licensing program for new motorists and improved rehabilitation for those injured in crashes. ICBC invests customers' premiums in road safety programs that provide a direct benefit through reduced claims costs. These programs help keep premiums at the lowest rates possible.



Auto Crime

Auto crime is a significant problem in British Columbia, resulting in claims costs to ICBC's customers of approximately $135.0 million in 2002. This represents an average of $50 per year in premiums just to cover auto crime costs. In response to this problem, ICBC continues to look for innovative partnerships and solutions such as the sponsorship of the Vancouver Police Department's (VPD) new Bait Car Pilot Project. The program is a collaboration between the VPD, ICBC and E-Comm (Emergency Communications for Southwest British Columbia). Bait Cars are left in high-crime areas and when an unauthorized person enters the car, an automatic system videotapes the incident and notifies E-Comm, which then tracks the location of the vehicle and notifies the police of its whereabouts. When police are in place, the vehicle is remotely disabled and the occupants apprehended. ICBC and several private companies are sponsoring an extensive advertising campaign to let thieves know that any vehicle they steal may be a Bait Car. ICBC also continues to support community solutions to auto crime by investing in programs such as parking lot patrols managed by local community groups.

Autoplan Broker RoadSense Team

In 1998, a partnership was established between ICBC and Autoplan brokers throughout the province to work together with community stakeholders to make BC roads safer and reduce crashes. Many of the programs undertaken involve working with children and youth within the education environment.

Road Improvement and Road Safety Planning

ICBC works with key partners, such as the Ministry of Transportation and municipalities, to make improvements to high-crash locations, especially intersections, and to ensure safety issues are considered at every stage of development of new roads and communities. The costs of safety projects are shared with provincial and municipal road authorities. ICBC requires a minimum rate of return of at least 2 to 1 prior to investing.

The Safer City program is a partnership between ICBC, local government, police and community stakeholders. This program encourages communities to establish safer transportation systems, and involves developing road safety plans that address local problems.

Licensing

ICBC is responsible for the Graduated Licensing Program, which is designed to help new drivers develop safe driving behaviours and skills. Within the first two years of driving, statistics indicate that new drivers are more likely to be in a crash than more experienced drivers. The crashes experienced by novice drivers are also more severe. Within the first two years of its inception, results have shown that the

Graduated Licensing Program has been successful in reducing the province's new driver crash rate by 26%.

Enforcement Support

The corporation partners with police, through the Targeted Traffic Enforcement program and the Enhanced CounterAttack Roadcheck program to reduce traffic crashes resulting from impaired

driving, unsafe speed, and aggressive driving. Funding is provided to police for additional enforcement on high-risk corridors and for impaired driving roadchecks. ICBC has also equipped high crash intersections for Intersection Safety Cameras in order to encourage motorists to obey traffic signals.

Public Private Partnerships

ICBC participates with communities and private sector organizations on innovative programs, such as the Road Anti-Icing Program developed in Kamloops, implementation of changeable road advisory message boards within BC, and development of a wildlife protection system. This system uses infrared cameras to detect animals approaching the roadway and in conjunction with the changeable message board, alerts drivers to slow down. Advancements in vehicle design are also being made in partnership with vehicle manufacturers and devices such as ICBC's Head Restraint Measuring Device are being employed around the world.

NON-INSURANCE SERVICES

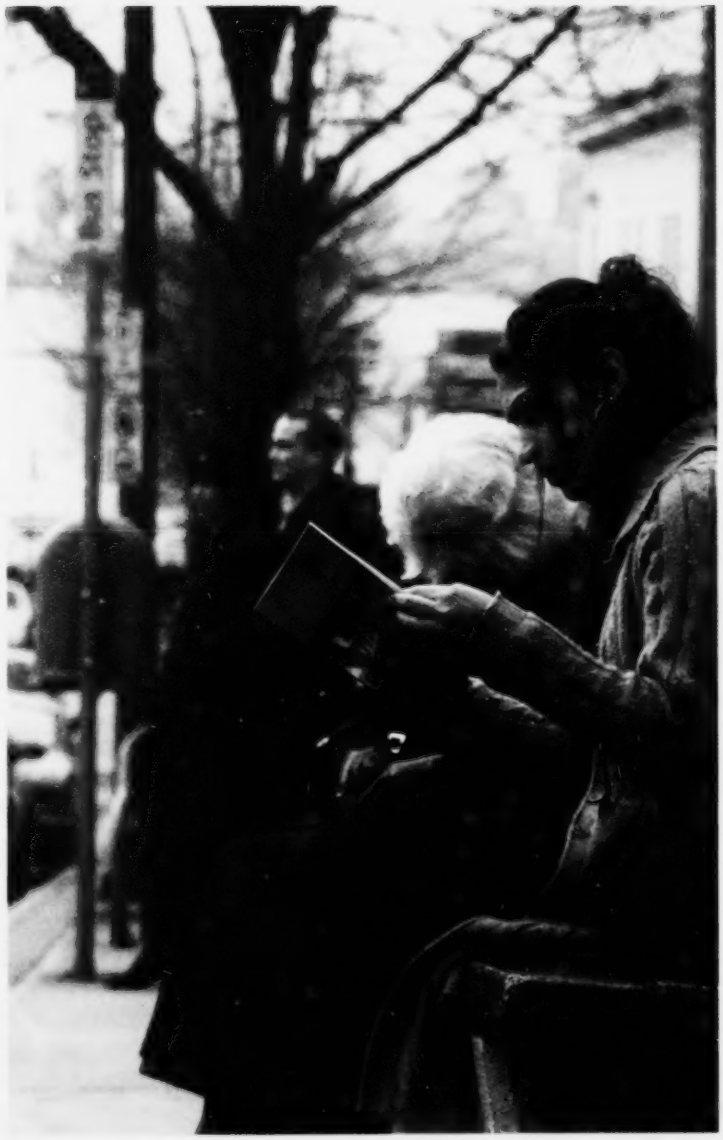
In addition to traditional insurance services, ICBC provides a number of non-insurance services on behalf of government that are related to the operation of vehicles on BC's roads. From these services, $416.9 million of licence fees and fines were collected and remitted directly to government in 2002.

Driver Licensing and Fines Collection

In addition to the Graduated Licensing Program, ICBC works with driving schools to raise training standards, and continues to investigate better ways to test new drivers and improve safety on BC's roads. Driver licensing services are also provided via 120 points-of-service including Driver Service Centres, Expressways, Appointed Agents and Government Agents' offices throughout BC. On an annual basis, ICBC processes approximately 900,000 driver licencing transactions and performs over 370,000 driver exams. On behalf of the provincial government, the corporation also collects motor vehicle related debts as well as fines issued under the Offence Act.

Vehicle Registration and Licensing

Since the mid 1970's, the corporation has been collecting vehicle registration and licensing fees, and managing the issuance of vehicle license plates and decals on behalf of the provincial government. ICBC provides these services through its network of brokers who perform registration and licensing functions at the time of insurance purchase. The synergies inherent in the current process allow the corporation to maintain low distribution costs and perform these functions efficiently for the benefit of all 2.7 million policyholders. The linkage between the requirement for vehicle registration and licensing prior to the issuance of insurance minimizes the number of unlicensed and uninsured vehicles operating in BC. For this reason, ICBC believes the percentage of uninsured motorists in BC to be lower than most jurisdictions.



Compliance

ICBC delivers commercial vehicle compliance functions using 38 fixed weigh scales and 37 portable weigh scales located throughout the province. These functions are delivered primarily to support safe transportation and commerce within BC. Functions include enforcement of vehicle safety requirements and protection of road infrastructure. As a result of government's Core Services Review, the commercial vehicle compliance and motor carrier functions will be transferred to the provincial government in 2003. Negotiations have been completed and ICBC has committed to pay to the provincial government a sum of $24.7 million annually based on the 2003 operating budget, for a period of three years.

Year in Review

The past year has been a transition year for ICBC, marked with tremendous changes and uncertainty. The transition began when ICBC shifted its priority to operating a financially sustainable business for the benefit of customers, while still maintaining a focus on road safety. First, ICBC needed to get its financial house in order and improve the effectiveness and efficiency of its operations. Only then would ICBC be in a position to serve the broad market of BC customers as a low-cost producer of auto insurance. As well, looming on the horizon was the prospect of increased competition and the potential impacts arising from government's Core Services Review. Given these circumstances, ICBC realigned its priorities to focus on:

- Better understanding the customer;
- Achieving operational excellence;
- Becoming financially sustainable;
- Shifting to a performance culture; and
- Investing in cost effective loss management initiatives.

Success in these areas will allow ICBC to compete effectively in the marketplace, offer the lowest rates possible, and enable ICBC to provide enhanced products and services to its customers.

At the start of the year, the government's Core Services Review was still underway with the future of ICBC to be decided. The departure of employees in late 2001 through the voluntary separation program enabled the corporation to look at alternative ways to manage the business with fewer resources. During this time and with the promise of more competition, ICBC had to take a hard look internally as an organization, and examine its business and cost structure.

The examination started in 2001 with many of the changes occurring in 2002. As a result, ICBC ended the year with controllable costs being significantly lower than 2001 and over 26% lower than 2000. Controllable costs consist primarily of compensation and discretionary costs. Throughout this change, broker support remained strong, customer satisfaction remained stable and employee satisfaction returned to levels existing prior to the changes.

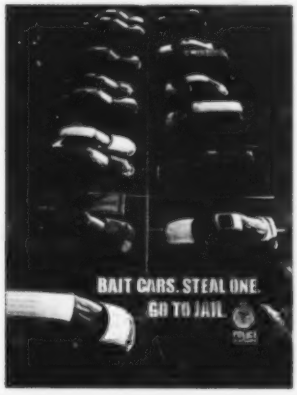
Changes were also made in the year to begin the culture shift to a performance-based competitive company. Financial accountability became the emphasis and a new performance management program for non-union staff was introduced. This program links incentives to the achievement of corporate, divisional and individual goals. Visible leadership and communication became a priority to help employees develop a good understanding of the corporation's goals and objectives.

These results contributed to the improvement in ICBC's overall performance as measured by its key performance measures – combined ratio, loss ratio and operating expense ratio. All three measures outperformed the targets and improved in 2002. This is a milestone step towards financial health and operational excellence.

On the investment front, ICBC was not immune to the conditions in the financial markets. Investment market volatility, negative equity returns and deepening investor uncertainty have dominated these markets in 2002. For the year ending December 31, 2002, world equity markets declined 20%, US equity markets declined 22% (S&P 500 index), Canadian equity markets were

down 12% (S&P/TSX composite index) and non-North American equity markets were down 16% (MSCI EAFE index). These declines have only been partially offset by gains in the bond markets, which have earned 8.7% over the same period as a result of the decline in interest rates in North America. ICBC ended the year with an investment return of 5.7% as compared to 8.0% in 2001. On a market value basis though, ICBC's performance has been above the median of most P&C insurers in Canada.[6]

In 2002, ICBC continued to invest in existing and new loss management initiatives to contain claims costs. These initiatives have been successful, as ICBC's claims costs increases have been lower than industry. In 2002 and 2001, claims costs increased by 3.2% and 6.0%, respectively. This compares well with the P&C industry, which experienced an increase of 16.7% in 2002.[7] During the year, the corporation also successfully partnered with the Vancouver Police Department (VPD) and private companies on the VPD's new Bait Car Pilot Project to address the problem of auto theft. Early results of the program are promising.



With the improvements achieved in controlling costs, ICBC once again was able to hold its rate increases for 2003 to modest levels despite the decline in investment return. The overall rate increase announced in December 2002 for 2003 is 4.8%, which includes a 3.9% increase for private passenger cars.

The P&C industry in Canada has experienced one of its worst years on record with premiums increasing on average over 30% across the country for a four year old vehicle. This includes increases of over 58% in both Alberta and the Maritime provinces while the increase in BC was 7.3%, according to Statistics Canada.[8] ICBC's ability to maintain low premium increases is a major accomplishment after taking into consideration the six-year rate freeze prior to 2001.

Measures were also implemented during the year to change the premiums charged to policyholders to be more reflective of the risk they represent. Customers are now required to declare the vehicle's principal operator at the time of renewal in order that premiums can be based on the driving history of an individual. Other changes include further discounts on optional insurance to those customers where all the drivers in the household have ten or more years of driving experience. Protecting policyholder premium dollars and minimizing claims costs are essential to fiscal management.

In 2002, ICBC sought feedback from customers regarding their perceptions of the products and services provided. Staff from all areas of the corporation, including front-line staff, listened first hand to customer perceptions. As a result of the feedback, ideas and initiatives were developed that have led to enhanced training for staff, improved communication of our products and services, and improved claims handling processes. ICBC's web site was enhanced to provide injured claimants with information about making a claim to enable them to become more informed. The ability to obtain a vehicle's claim history was also added to the internet to provide an alternative method for obtaining this information. ICBC's

[6] Towers Perrin - P&C Investment Monitor Quarterly Report (ICBC commissioned benchmark report which includes approximately 70% of the P&C insurers in Canada)
[7] Insurance Bureau of Canada, Perspective, Volume 9, Number 1, March 2003.
[8] Source: Statistics Canada, The Consumer Price Index January 2003, Catalogue no. 62-001-XIB, Vol 82, based on a four year old vehicle, www.statcan.ca

measure for customer satisfaction improved slightly during the year and other initiatives are underway to explore opportunities for servicing our customers. Maintaining high levels of customer satisfaction is a major accomplishment considering the financial restraint measures implemented during 2002.

The changes undertaken during the year positioned ICBC well for the outcome of the Core Services Review and the launch of ICBC's new corporate strategy. In late November, the Core Services Review concluded with these three outcomes:

1. The vehicle compliance and motor carrier function will be transferred back to government.
2. ICBC will be placed under the authority of an independent, arm's-length regulatory body.
3. ICBC will continue to aggressively look for ways to contain premium increases while providing quality products and services. Underlying this will be the need for ICBC to move to a cost structure that will enable the corporation to be flexible and respond quickly to further changes down the road.

As the regulatory framework is defined, ICBC continues to work with the provincial government to identify issues and make recommendations for the implementation of these outcomes. This will be a priority for the coming year.

LOOKING FORWARD

Moving forward, ICBC is entering a challenging period with rising claims costs and volatile financial markets continuing to take their toll on insurers' income. Significant premium increases are occurring across Canada, with some insurers either refusing new business or ceasing operations entirely in some areas. In addition, competition is expected to increase in BC's auto insurance market place. ICBC's perspective regarding its external operating environment and future outlook is described in greater detail in ICBC's Service Plan 2003-2005.

In response to these challenges, ICBC has mapped out its strategy for the next three years to become the leading insurance company in all aspects of its business, operating competitively and valued by its customers. Underlying this strategy is a business-oriented plan focused on doing the right things for our customers. The plan is centred around the following goals:

- To become more competitive in all aspects of the corporation's activities.
- To increase customer focus and ensure actions are for the benefit of policyholders.
- To be revenue driven and fiscally responsible as a means to ensure ICBC is financially sustainable and to keep insurance premiums as low as possible.
- To develop personally accountable, capable and engaged people dedicated to achieving the corporation's goals.

Efforts will continue to streamline operations, improve efficiency and build in flexibility for the corporation to compete effectively and respond to change. Underwriting will continue to focus on improving profitability and move towards risk based pricing. ICBC will become a "listening organization" to better understand customer needs and engage staff in the achievement of these corporate goals. ICBC's Service Plan 2003-2005 describes in greater detail the alignment of these goals with government's priorities, how these goals will be achieved, and the measures and targets used to evaluate progress.

Business Risks and Risk Management

During 2002, ICBC developed a Risk Assessment Framework for the identification and evaluation of risks facing the corporation. Review and ranking of these risks was undertaken jointly between executives and the Board. As part of the governance review, the responsibility of the Board for the oversight of risk management was also clearly defined in the Board Manual.

From the review, a number of risks were rated as being high. For these risks, the control environment was assessed for adequacy, and where the risks were not being mitigated, specific plans were developed for 2003. These risks are discussed below:

Economic Environment

Investment market volatility, negative equity returns and deepening investor uncertainty have dominated financial markets in 2002. Poor equity performance has been only partially offset by gains in the bond markets. Bond investments represent 71.0% of ICBC's portfolio and consist primarily of highly rated federal, provincial, municipal and corporate bonds. The predominance of bonds in the investment portfolio makes ICBC's investment return particularly vulnerable to the movement of interest rates. The guidelines included in the investment policy are designed to offset the risk associated with interest rate movement. The frequency, volatility and direction of interest rate changes, and its potential impact on ICBC's investment portfolio are monitored on a daily basis.

ICBC's investment policy is established and approved by the Investment Committee of the Board which provides guidelines for the corporation in balancing the level of risk and return in its investment portfolio and to ensure assets are managed with due diligence. Within the policy, there are explicit and prudent limits for investments in various asset categories. During 2002, the corporation's investment policy was reviewed as part of ICBC's ongoing risk assessment process. As part of the review, interest rate trends and equity market performance were two of many factors considered, and the risk and return profiles of asset categories were evaluated. Revisions were made to the policy to enable ICBC to attain the right balance between risk and the expected overall rate of return for the investment portfolio bearing in mind the level and duration of liabilities.

Investment income is typically a large component of an insurance company's revenues. For ICBC, a one percent fluctuation in investment return means approximately a $58 million change in investment income. Uncertainty in the markets require insurers to periodically assess their investment strategy to ensure there is an appropriate balance between risk and return.

Government and Regulatory Risk

As a crown corporation established to provide mandatory automobile insurance, ICBC is governed under provincial legislation and is impacted by government policy and legislative changes.

In 2003, the most significant change facing ICBC will be the introduction of the regulatory framework for the corporation. One of the objectives of the regulator will be to set rates for the basic insurance product and ensure there is no cross-

subsidization of premiums between basic and optional insurance. Since the regulatory model is under development, the full extent of the implications from the introduction of this model is not known. In the meantime, ICBC continues to work with the provincial government to identify issues and recommend the necessary changes for the implementation of this regulatory framework.

Legislative or government policy changes can also impact ICBC's ability to deliver services and associated costs. For example, medical practitioner rates, hospital rates and other related costs, and changes in benefits in the provincial health care program can result in an increase in ICBC's claim costs. Any policy changes in the non-insurance services can also impact ICBC's operating costs as these services are provided on behalf of government and are funded from basic insurance premiums.

Claims Costs

Claims costs represent the most significant cost for ICBC accounting for over 75% of total expenditures. A 1% fluctuation in claims incurred means a $23-25 million change on average claims costs, and a 1% fluctuation in the unpaid claims balance means approximately a $40 million change in claims costs. Factors affecting these costs include the frequency and average cost of crashes, costs for medical services and vehicle repairs, people's tendency to litigate, judgements arising from the settlement of litigated cases, and fraudulent activities. ICBC manages these costs by monitoring claims trends and undertaking loss management initiatives aimed at road safety and fraud prevention.

BC has a tort system of auto insurance where injured claimants have the ability to sue for damages. As a result, many of ICBC's injury claims involve litigation, but less than 1% of these claims are resolved by trial. In assessing damages, the courts often rely on precedent setting cases where the circumstances of the case are similar. For this reason, large judgement awards can have a significant impact on pending litigation cases.

Class action cases can also have a significant financial impact for the corporation. Across Canada, lawsuits have been launched alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. A class action lawsuit has been started against ICBC but has not yet been certified. There has been both success and failure of these class actions in other jurisdictions and it is difficult to reasonably assess the likelihood of the success of this class action in BC.

Business Interruption

Business interruption which arises as a result of labour negotiations or natural disaster can potentially disrupt service levels for insurance, claims and licensing services, and impact the corporation's claims costs and market share. ICBC is currently developing a Business Continuity Plan to enable the corporation to provide critical services in the event of such an occurrence.

Public Perception

Insurance is a complex business affected by many factors, which are taken into consideration in pricing decisions, product design and road safety initiatives, as examples. A corporate communication strategy is being developed, and activities will be undertaken to raise public awareness and to inform the public about ICBC's products and the unique value received.

Competition

The profitability of ICBC's insurance products are affected by external factors stemming from competitor actions, and internally by ICBC's ability to design and profitably price its products to reflect the risk being insured. Existing product profitability may affect the corporation's ability to rebuild retained earnings. The underwriting function within ICBC monitors product profitability and develops strategies for improvement. The general direction, in particular for competitive optional products, is towards "right pricing" for all categories of customers to ensure premiums paid are reflective of the risk they represent. In some situations if this is introduced too rapidly, this can lead to rate shock for certain groups of customers which could lead to a greater percentage of drivers who drive uninsured.

Capital Levels

As a crown corporation supported by government's financial guarantee, ICBC is able to operate with lower levels of capital, as compared to industry standards. The adequacy of reserve levels is a measure of solvency and is intended to protect the policyholders in the event of unexpected losses from unusual events. Where levels are not adequate, there is a greater risk to government that ICBC may need to avail itself of government's support. ICBC is therefore planning to achieve reasonable levels of net income over the next few years to rebuild retained earnings and strengthen the corporation's financial position.

Catastrophic Loss

In the event of losses resulting from catastrophes, such as an earthquake, ICBC has financial protection through a reinsurance policy. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. In addition to protection against individual catastrophic events, the reinsurance agreement protects the corporation against an abnormal number of large losses by limiting the amount for which the corporation is liable in any single year. With the difficulties in the current reinsurance market, ICBC has developed a strategy for renewing its policy at the end of 2003.

Employee Development

ICBC is undergoing a culture shift to an outcome-based performance driven organization with individual performance linked to corporate and divisional goals. The ability to do this well will lead to higher employee morale, reduced staff turnover and enable the achievement of corporate goals. In order to preserve and build on ICBC's human capital, there will also be a need to identify individuals with potential for more senior roles and provide a career succession path. Succession planning is a critical element of good corporate governance and will ensure that appropriate individuals are groomed for leadership roles. The implementation of a performance management system, which will be completed by the end of 2003, will provide the foundation for this to occur.

Infrastructure

The technology systems and processes at ICBC may not be responsive or adequate to support future business needs. As ICBC prepares for increased competition, there will be a need to make cost effective investments and take advantage of new technologies. Work is underway to identify exposures and prioritize business requirements. A technology and systems plan will be defined and changes will be implemented.

STOP

Management Discussion and Analysis

FINANCIAL OVERVIEW

ICBC ended the year with a net income of $45.0 million, a significant improvement over the previous year's net loss of $250.5 million. Several factors account for this turnaround. There was a significant reduction in operating costs for claims services, loss management and road safety services, insurance services and non-insurance services totaling $156.6 million, of which a significant portion resulted from a reduction in controllable costs. Further restructuring costs of $15.2 million were necessary in 2002, as compared to the $39.5 million incurred in 2001. In 2001, ICBC recorded a $100 million provision for its Central City development. During the current year, a further provision of $41.1 million was needed, however, this was offset by a lease cancellation payment received from the Technical University of BC (Tech BC) for cancellation of their lease with ICBC Properties Ltd. (IPL). An average rate increase of 7.4% was announced in late 2001, after a six year rate freeze, which together with an increase of 1.4% in the number of vehicles covered by basic insurance, resulted in an increase in premiums earned of $181.4 million. Offsetting these improvements was an increase in the costs of claims, net of prior years' adjustments, of $40.0 million. The increase in these costs were effectively controlled through new and existing loss management initiatives. Investment income experienced a decline of $126.7 million as a result of lower interest income and poor equity performance.

The chart on the following page provides an overview of how ICBC's premium dollars were spent in 2002.

The resulting net income of $45.0 million, less than 2% of premiums earned, will be used to rebuild ICBC's retained earnings for the protection of policyholders.

PREMIUM

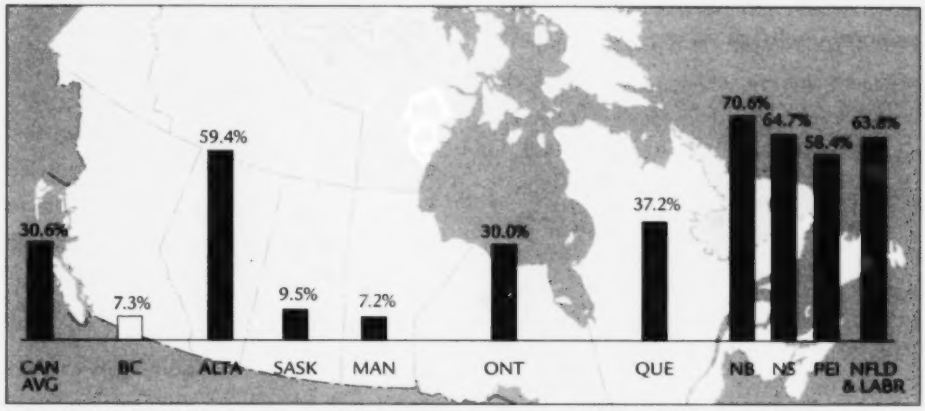
Premium revenue increased in 2002 as a result of an increase in the number of policies sold and the 7.4% increase in rates announced in 2001, the first increase following a six year rate freeze. Autoplan policies increased from 2,661,000 policies in 2001 to 2,705,000 policies in 2002 with vehicle population growth being the primary driver for this increase. The impact of a rate increase takes two years to be realized as policies become due and are renewed.

During 2002, the corporation carried on with its strategy of streamlining operations and reducing operating costs, and investing in loss management initiatives to contain claims costs. In doing so, ICBC made significant strides by achieving 18.5% decrease in controllable costs over last year. Despite this achievement, the financial outlook for the upcoming year and the repercussions of the six year rate freeze could not be ignored. Although ICBC's operating expense ratio improved considerably, further reductions in operating costs of the same magnitude could not be obtained. In order to achieve the corporation's objectives to be fiscally responsible and provide a reasonable return on equity, the existing rates were considered inadequate. ICBC was successful in keeping rate increases to a modest level, and in November 2002, premiums were increased on average by 4.8%. The average increase for private cars in BC was 3.9% and consists of the following:

- an increase in basic premiums of 1.4%, less than the increase in inflation, and
- an increase of 7.6% for the optional premiums, a segment of ICBC's business which is open to competition.

The chart below shows the increases in auto insurance premiums for a four year old vehicle across all jurisdictions in Canada. BC's increase of 7.3% is one of the lowest in Canada, similar to the increase of 7.2% in Manitoba where there is a different insurance product. In comparison to other provinces, the average premium increase across Canada was over 30%, including over 58% in both Alberta and the Maritime provinces, according to January 2003 data published by Statistics Canada.[9] The industry as a whole continues to struggle with inadequate pricing and poor financial results.

PERCENTAGE CHANGE IN AUTO INSURANCE PREMIUMS (January 2003 over January 2002)



Source: Statistics Canada, The Consumer Price Index January 2003, Catalogue no. 62-001-XIB, Vol 82. Premium increase based on a four year old vehicle.

CLAIMS

Changes in Claims Costs

Rising claims costs continue to be a problem across Canada, with an increase in claims incurred of 16.7% overall in 2002 for the P&C industry.[10] The increase can be attributable to an increase in bodily injury claims, driven by a number of factors such as increases in soft-tissue injury (whiplash) claims, insurers having to bear a larger portion of medical costs, medical inflation, use of more expensive alternative treatments, increased legal representation and fraud. In terms of material damage, increases in auto theft and crime, vehicle design and inflation in the auto repair sector are

ICBC CLAIMS INCURRED
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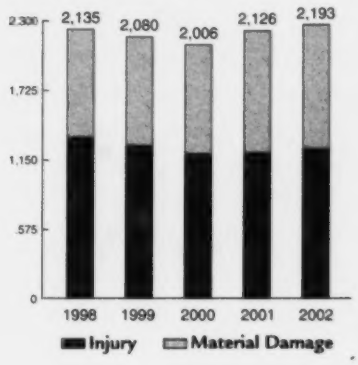

[9] Source: Statistics Canada, The Consumer Price Index January 2003, Catalogue no. 62-001-XIB, Vol 82, based on a four year old vehicle, www.statcan.ca

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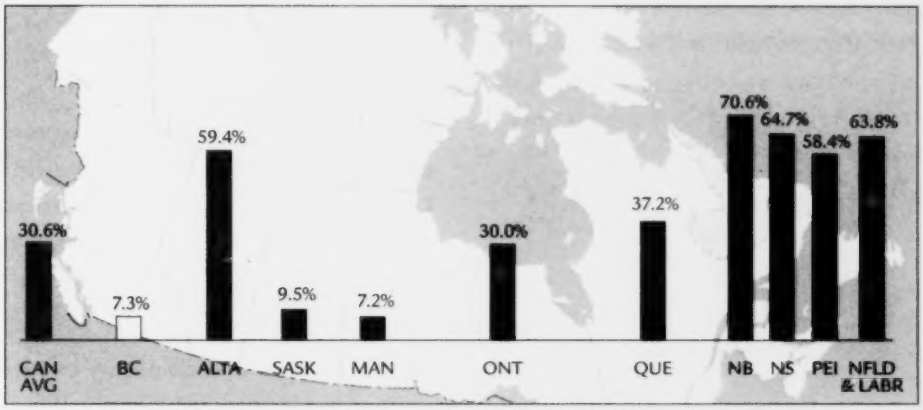

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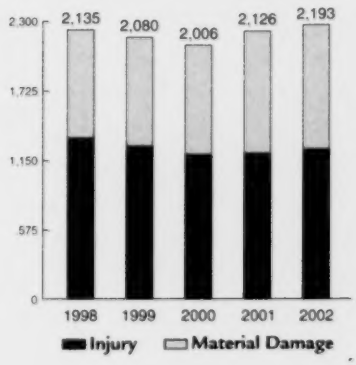

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key drivers of the increasing cost trend. The current sluggish economy raises further concerns over fraudulent claims, arson and theft.

ICBC has been successful in managing its claims costs, given the industry environment. Overall, the costs of current claims incurred increased modestly by 3.2% or $67.2 million to $2.2 billion in 2002 as shown in the chart on the previous page. The increase has been minimal due to effective management of claims costs, and investment in loss management and road safety programs which have been successful in changing the claims trend. The good weather experienced towards the end of 2002 also helped to offset the unusually high number of claims reported in the first quarter due in part to poor weather conditions.

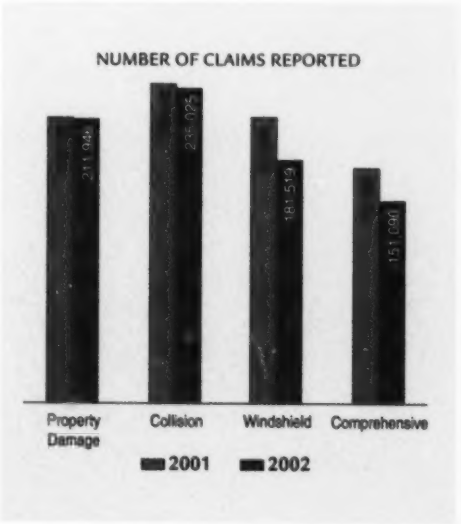
Increase in claims incurred costs arose primarily from an increase in the average cost of claims which more than offset the reduction in costs associated with the modest decrease in the total number of reported claims. The total number of claims reported decreased to approximately 1,072,000 claims in 2002 as compared to the 1,105,000 claims experienced in 2001, and represents a 3.0% decrease. Most types of claims, including injury claims which are generally of higher value, decreased with the exception of death benefit claims and Roadside Plus claims. Roadside Plus is a relatively new product for ICBC and has experienced a growth in the number of policies sold. The increase in death benefit claims may be due to more severe crashes in 2002. Within comprehensive claims, theft of vehicle claims also increased.

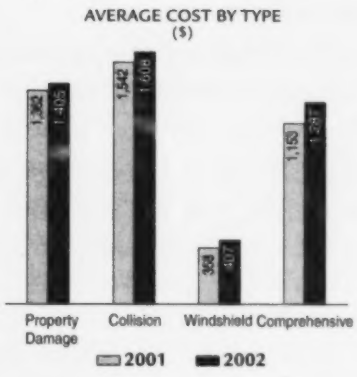
Injury Claims

During 2002, there were higher incidences of speed-related and more severe crashes. This is further corroborated by a higher number of vehicles deemed a total loss and an increase in orthopedic injuries over the year, both of which are indicative of more serious crashes. As a result, the average costs of injury claims increased by 6.3% in 2002, and has the largest impact on the increase in claims incurred costs. Injury claims costs include amounts paid for pain and suffering, future care, future wage loss, accident benefits and external claims handling expenses. Other factors that influenced the average cost of injury claims include a 15.2% increase in the number of reported large loss claims (over $100,000), impacts of large awards from precedent setting cases and a general trend towards higher policy limits being purchased. Bodily injury claim costs are on the rise industry wide and ICBC is not immune to these pressures.

Non-injury Claims

The main categories of non-injury or material damage claims are collision, property damage, windshield and comprehensive. In 2002, there was a significant reduction in the volume of these claims as a result of increases in deductibles for collision, comprehensive and windshield coverage.





Based on costs recorded in the year.

These higher deductibles contributed to the increase in the average cost of all physical damage claims of 5.6%.

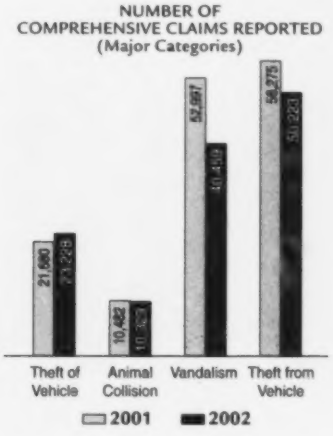
Collision and Windshield Claims

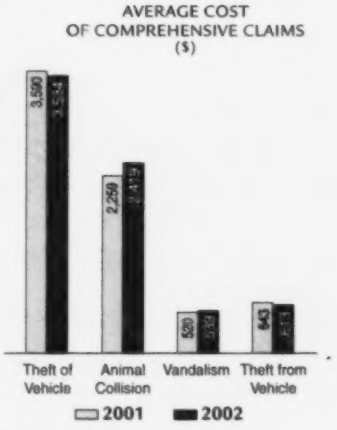
In 2001, ICBC raised the minimum deductible available for collision coverage from $200 to $300 essentially requiring an insured to self-insure up to the minimum deductible level. These changes bring ICBC closer to industry practices by allowing the corporation to eliminate some of the smaller value claims and direct premium dollars to pay for the more significant losses. This results in an increase in the average cost of these claims, as shown in the chart above, since only those cases where the damage is in excess of the new minimum deductible amount would be claimed.

A similar change was made to windshield coverage where the minimum deductible was changed from $100 to $200. This change resulted in a 15.0% decrease in the number of windshield claims in 2002 as shown on the previous page, and an average cost increase of almost 14.0% as shown in the chart above.

Comprehensive Claims

In addition to windshield claims, comprehensive claims also include fire, theft of and from auto, animal collision and vandalism. Within this category of claims, auto theft continues to be a problem, and ICBC is not unique in being confronted with this issue. As shown in the charts below, the number of auto theft claims increased 7.1% while the average cost decreased by 1.6%. Theft claims represent the more expensive types





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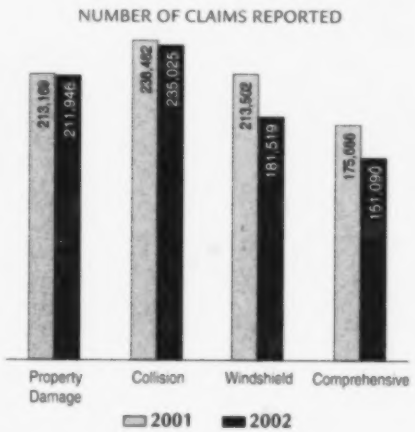
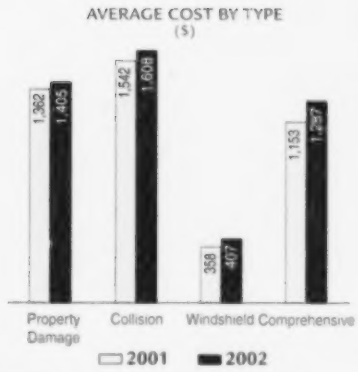




Based on costs recorded in the year

These higher deductibles contributed to the increase in the average cost of all physical damage claims of 5.6%.

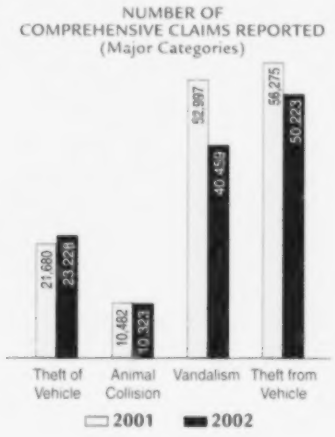
Collision and Windshield Claims

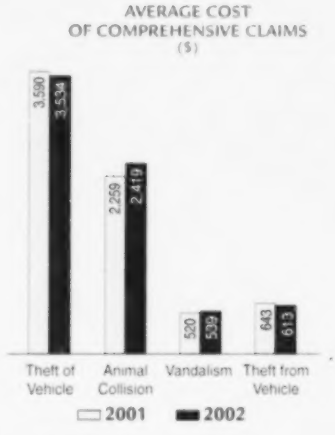
In 2001, ICBC raised the minimum deductible available for collision coverage from $200 to $300 essentially requiring an insured to self-insure up to the minimum deductible level. These changes bring ICBC closer to industry practices by allowing the corporation to eliminate some of the smaller value claims and direct premium dollars to pay for the more significant losses. This results in an increase in the average cost of these claims, as shown in the chart above, since only those cases where the damage is in excess of the new minimum deductible amount would be claimed.

A similar change was made to windshield coverage where the minimum deductible was changed from $100 to $200. This change resulted in a 15.0% decrease in the number of windshield claims in 2002 as shown on the previous page, and an average cost increase of almost 14.0% as shown in the chart above.

Comprehensive Claims

In addition to windshield claims, comprehensive claims also include fire, theft of and from auto, animal collision and vandalism. Within this category of claims, auto theft continues to be a problem, and ICBC is not unique in being confronted with this issue. As shown in the charts below, the number of auto theft claims increased 7.1% while the average cost decreased by 1.6%. Theft claims represent the more expensive types

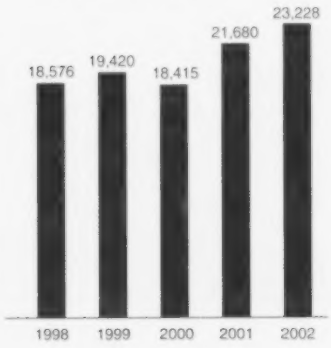




Based on costs recorded in the year

of comprehensive claims and with the increase in the number of these claims, the average cost of all comprehensive claims increases. Since 2000, auto theft claims have increased significantly as shown in the chart below. In 2002, the total number of comprehensive claims decreased by 14.0% and the average cost increased by 11.6%. The increase in cost is also attributable to an increase in deductible in 2001.

TOTAL THEFT OF VEHICLES

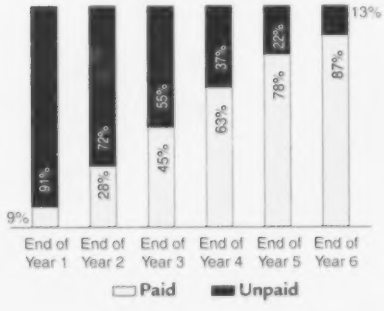


To reduce the problem of theft, the corporation has partnered with municipalities and law enforcement on various auto theft initiatives such as the Bait Car Pilot Project. The program – a collaboration between the Vancouver Police Department (VPD), ICBC and E-Comm (Emergency Communications for Southwest British Columbia) – was launched in September 2002 to target the high number of vehicles being stolen in Vancouver.

Unpaid Claims and Prior Years' Adjustments

Prior years' claims adjustments are a result of the re-estimate of unpaid claims costs for claims in progress and for those that took place before 2002 but have not yet been reported. Estimates for these future claims costs can change significantly in some years due to the time frame in which certain types of claims are settled. Bodily injury claims account for approximately half of total claims costs and generally take several years to resolve. As illustrated in the chart below, only a small percentage of injury claims costs are paid and known in the first year of the claim's occurrence with a greater proportion of the costs being an estimate of future claims costs. As time passes, more information becomes available and the estimate of the remaining future claims payments are refined and prior years' adjustments to the unpaid claims reserve are required to reflect the most current forecast of claims costs. The unpaid claims reserve is money set aside in anticipation of future claims payments. The adequacy of this reserve is reviewed and adjusted periodically throughout the year based on revised actuarial estimates. ICBC

BREAKDOWN OF BODILY INJURY COSTS
(A TYPICAL ACCIDENT YEAR)



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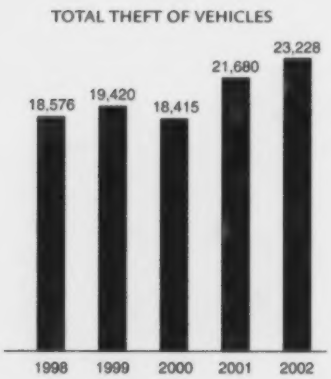

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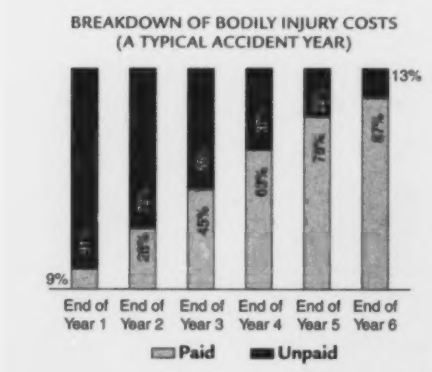


also commissions the services of an external actuarial firm to provide an independent assessment of the claims reserves. In addition, as part of its annual audit of the financial results, the external auditor reviews the adequacy of the reserves.

In 2002, a favourable prior years' adjustment was realized resulting in a reduction of claims costs of $24.8 million whereas in 2001, claims costs were increased by $2.2 million as a result of the refinement to the unpaid claims balance. These results compare well with industry, which experienced significant unfavourable claims development in 2001.

Prior to 2001, ICBC's favourable prior years' adjustments have been significantly higher allowing the corporation to report higher positive financial results. The large adjustments in the past are mainly attributable to the results of road safety and claims costs savings initiatives undertaken by the corporation since 1996 which changed the trend of claims experience. Over time, the impact of these programs and their effect on the claims trends are factored into the claims estimating process and further significant changes in trends have not been experienced.

LOSS MANAGEMENT AND ROAD SAFETY

Since the 1990's, ICBC has invested in road safety programs which result in reduced claims costs and keep premiums at the lowest rates possible.

During 2002, police agencies throughout the province participated in the Enhanced Counter-Attack Roadcheck Program. Over 1.9 million motorists passed through more than 2,500 road checks and over 4,900 suspected impaired drivers were removed from the roads. Between May and December, eight independent police agencies also dedicated over 11,000 hours to enhanced traffic enforcement. This resulted in more than 25,800 motorists contacted with 25,000 violation tickets and warnings being issued. ICBC contributed approximately $10 million in 2002 for enforcement programs.

In 2002, the corporation was involved with more than 200 road improvement projects, including: traffic sign and signal upgrades; implementation of roundabouts; installation of reflective road markings along the Sea-to-Sky Highway; installation of shoulder rumble strips in various highway locations; and anti-skid treatment at several crash-prone locations. ICBC contributed approximately $10 million to these projects, with the remainder provided by provincial and local road authorities. ICBC requires a financial payback of at least 2 to 1 prior to proceeding with these investments.

Within the fraud prevention area, ICBC has a number of ongoing programs. The corporation provides $1.8 million annually to the Auto Theft Task Force, which is a multi-jurisdictional police force established in 1998 to combat auto theft in the Lower Mainland. Other programs include designated teams of claims adjusters and Special Investigation Unit officers working together to focus on particular types of claims. ICBC also has a specialized Fraud Analysis Unit which provides support to the investigation teams through data analysis and innovative fraud detection techniques. These programs accounted for approximately $10 million of loss management expenditures in 2002.

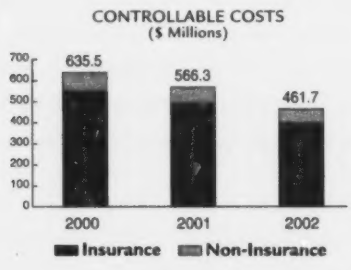
At a regional level, often in conjunction with Autoplan brokers, ICBC invests in road safety programs aimed at youth and elementary school children. These initiatives accounted for approximately $5.3 million of expenditures in 2002.

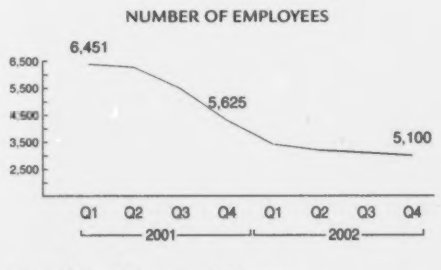
Overall road safety and loss management expenditures were $38.0 million in 2002, as compared to $58.6 million in 2001. The reduced spending resulted from a general decline in administrative costs and staffing levels due to fiscal restraint, a delay in enforcement funding while negotiations with law enforcement agencies were underway, and the elimination of photo radar costs in 2002. Reductions in staffing, without significant impacts on programs, was made possible due to efficiency improvements in processes and systems.

OPERATING COSTS

During 2002, ICBC has made significant strides in getting its financial house in order. This effort began in 2001 when ICBC began to comprehensively review all its business functions and determine whether the cost structure in place would allow the corporation to be competitive and responsive to changes in the market place. Based on this review, measures were taken in 2001 to streamline operations, eliminate functions and drastically reduce discretionary costs. Implementation of these measures carried on into 2002 and resulted in significant reductions to controllable costs. These costs are a component of operating costs, the difference being operating costs include premium taxes and commissions, and controllable costs do not. Since 2000, ICBC's controllable costs (insurance and non-insurance operations) have decreased by $173.8 million, of which $104.6 million was realized in 2002. As a result, ICBC's operating expense ratio before non-insurance expenses has decreased from 17.3% in 2001 to 15.4% in 2002 and is significantly lower than the estimated auto insurance expense ratio of 25-27% for 2001, according to the Insurance Bureau of Canada.

A significant portion of the reduction is attributable to the departure of employees through the voluntary separation program and attrition. Approximately 1,000 employees left in 2001 and the full impact of the savings are reflected in the reduction in compensation costs in 2002. Employee levels further declined in 2002 to approximately 5,100 by year end. This decline is due primarily to further restructuring and attrition as managers were encouraged to continue looking for innovative ways to manage workload and to employ temporary measures in response to workload fluctuations. This has resulted in positions not needing to be replaced.





Based on full time equivalents at the end of the quarter.

A further $15.2 million in restructuring costs was recognized in 2002 consisting mainly of the costs of relinquishing leased premises, severance arrangements and other costs of consolidating operations. The chart on the previous page shows the decline in employee levels since the beginning of 2001.

During the year, ICBC reduced the number of claims centres by consolidating four claim offices and further reduced its leased office space. Over 130,000 square feet of owned office space was removed and the redundant claims centres were re-deployed or are in the process of being disposed. In addition, there was a 20% or 140,000 square feet reduction in occupied leased space. As a result of these measures, the corporation's facilities are operating at a more efficient level of capacity. The closing of claim centres was possible as a result of changes in the corporation's business model, which allowed some functions to be redirected to ICBC's Telephone Claims Department for expedited handling. For the upcoming year, the corporation will continue to monitor facilities requirements resulting from changes in workflow and volume.

ICBC reviewed its business processes, and as a result was able to significantly reduce its dependency on maintaining a large corporate vehicle fleet. The corporate fleet was reduced by over 700 vehicles from a high of over 950 vehicles to approximately 230 vehicles at year end. This fleet will be further reduced by approximately 90 vehicles upon completion of the transfer of the compliance function to government.

In 2002, project costs and discretionary spending were curtailed. Costs for developing small scale projects were accommodated within divisional budgets without increases. The implementation of major business changes continues to be effectively managed corporately. Discretionary spending such as travel and conferences were significantly reduced. Travel costs declined by 28.9% and external training costs declined by 20.5% in 2002. Training became more targeted and alternative solutions were utilized to meet employees' training and development needs. The use of technology and communication equipment allowed employees to reduce the amount of travel required for business purposes.

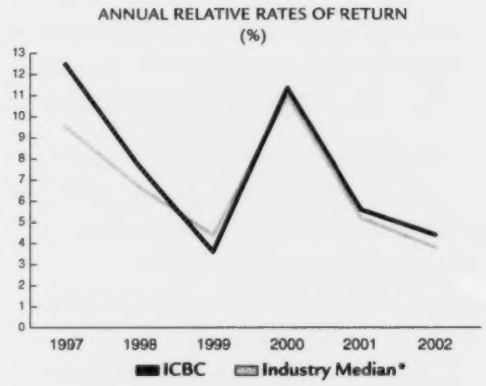
Corporate service arrangements and contracts have undergone a review and changes have been made to increase the value to ICBC of services provided by vendors.

As shown in the chart on the previous page, controllable costs in insurance operations decreased by $93.9 million or 19.3% to $393.4 million in 2002. A similar decrease was also seen in non-insurance services where controllable costs decreased by $10.6 million or 13.5% to $68.3 million.

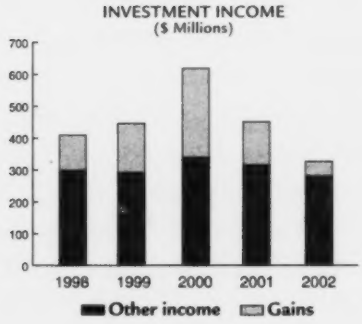
Non-insurance costs consist of the administrative costs for operating the licensing and compliance functions on behalf of government. These costs totaled $83.7 million (non-insurance controllable costs plus commissions) in 2002 and represents 3.2% of premiums. As a result of the Core Services Review, the commercial vehicle compliance and motor carrier functions will be transferred back to government in 2003. As part of the transfer, ICBC will continue to pay a sum to the provincial government, equal to the 2003 operating budget of approxiamtely $24.7 million for the compliance function, for a period of three years from April 1, 2003.

INVESTMENTS

Funds available for investment purposes come primarily from the reserves set aside for unpaid claims and unearned premiums. At the end of 2002, ICBC's investment portfolio totaled $5.9 billion and represents 95.2% of the corporation's assets. The investment portfolio consists primarily of bonds, money market securities, equities and real estate. As shown in the chart below, ICBC's investment income declined to $327.3 million in 2002. The decline arises primarily from lower interest income, lower gains on the sale of bonds, and a decrease in gains on the sale of equities including a one-time write down of certain equities to market value at the end of the year.



* Average performance for approximately 70% of P&C insurers in Canada.



Despite this decline, ICBC has outperformed 69% of the Towers Perrin P&C Diversified Universe over the last 5 years. For 2002, ICBC has continued to perform above the median as shown in the chart below.[11]

Bonds

Interest income from bonds decreased by $31.5 million in 2002 over 2001 due to a decline in bond yields as well as a decline in the average size of the bond portfolio. Gains recognized from bond sales declined by $74.8 million partly due to a change in accounting policy. Gains were previously deferred and recognized in income over a five year period, and are now being recognized as they are incurred. In addition lower gains were recognized during the year.

Equities

In general, equity markets performed poorly in the year with declines of 22% in the US equity markets (S&P 500 index) and 12% for Canadian equity markets (S&P/TSX composite index). For 2002, equities losses increased from $13.9 million to $29.8 million. Included in the 2002 loss are equity gains of $45.0 million, which were realized when the investment strategy for Canadian equities was changed and the management of the portfolio

[11] Towers Perrin – P&C Investment Monitor Quarterly Report (ICBC commissioned benchmark report which includes approximately 70% of the P&C insurers in Canada)

was transferred to an external firm. As well, the current year equity loss includes a one-time write down to market value for the permanent impairment in value of certain equities of $38.9 million.

Real Estate

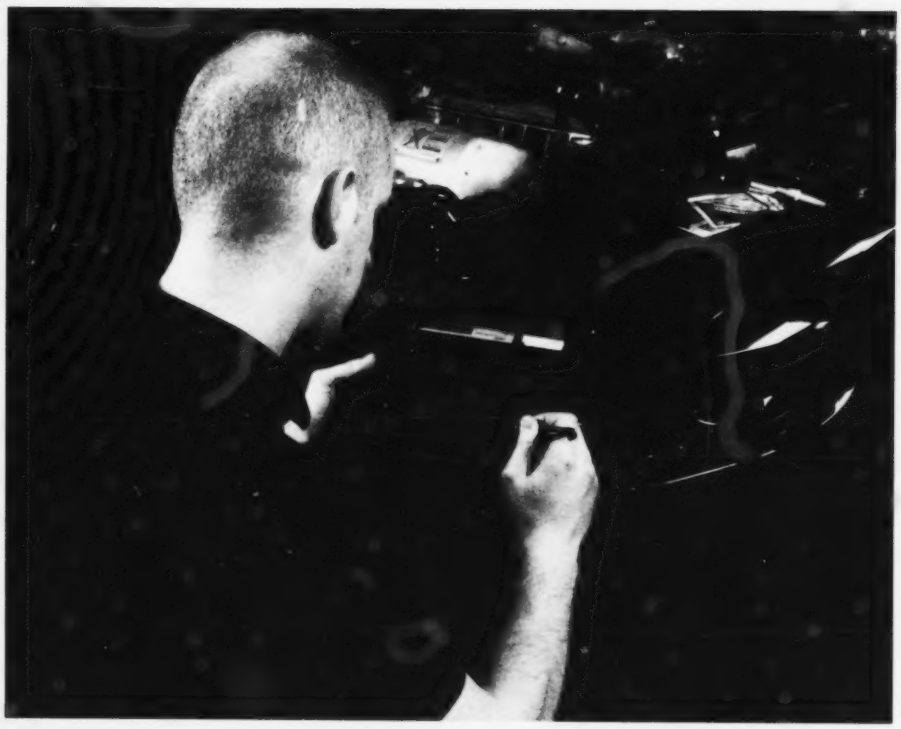
Within the investment portfolio, approximately $199.5 million is invested in real estate with a major holding being the Central City real estate development. ICBC Properties Ltd. (IPL) is a wholly owned subsidiary of the Corporation responsible for managing this project, which is anticipated to be complete by early 2003, and other real estate holdings within the investment portfolio.

In 2002 after the termination of the operations of the Technical University of BC (Tech BC), the corporation undertook a further assessment, which included independent market appraisals, of its investment in the Central City development. As a result of the assessment, a further provision of $41.1 million was considered necessary in 2002. This is in addition to the $100 million provision required in 2001. Tech BC was expected to be one of the main anchor tenants at this property. After the termination, the Tech BC lease was cancelled, and in the negotiations that followed, Tech BC paid $41.1 million to ICBC Properties Ltd. (IPL) as compensation for terminating the lease.

The Central City development consists of the Surrey Place Mall, and a new Galleria and 25 story-office tower with attractive commercial and office space, complete with all amenities. As the development nears completion, IPL continues to actively search for additional tenants.

RETAINED EARNINGS

Retained earnings are required to provide the corporation with the ability to absorb unexpected losses arising from unusual events and factors. Changes to retained earnings arise from the net financial operating results of the corporation each year. In 2002, the year ended with net income of $45.0 million, which increased the level of retained earnings to $314.2 million. In the private insurance industry, the adequacy of reserves is an important determinant of financial stability and is closely monitored by regulators. As a crown corporation with the provincial government's financial guarantee, ICBC has been able to operate on a lower level of retained earnings relative to industry requirements. Starting in 2003 and as part of its overall strategy to become more competitive, the corporation will be moving towards building up its reserves to meet these requirements for the competitive insurance business.



Report on Performance

Once direction is set and goals are established, the key to success is the measuring and monitoring of results towards those goals. For 2002, ICBC set out to:

- Better understand the customer;
- Achieve operational excellence;
- Become financially sustainable;
- Shift to a performance culture; and
- Invest in cost effective loss management initiatives.

Substantial progress was made in moving down this path, and the 2002 performance results are a testimony to ICBC's success this past year. In all the critical industry measures – combined ratio, loss ratio, expense ratios – ICBC's performance improved relative to 2001, and outperformed the 2002 targets. ICBC's investment return declined, similar to the rest of the P&C industry, and customer measures remained fairly consistent with prior year's levels. Loss management initiatives continued to deliver positive results as seen in the reduction in the injury frequency rate.

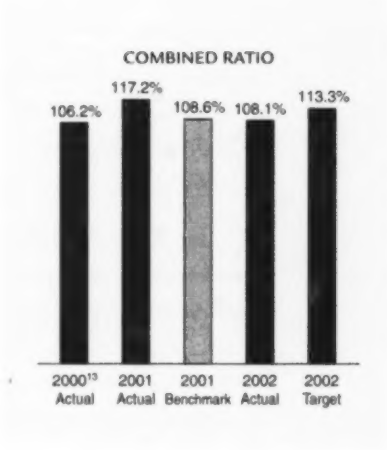
The following sections provide a summary of ICBC's performance results relative to its Service Plan 2002-2004. As a result of minor reclassifications of costs, the 2002 targets were adjusted for a number of the ratios – combined, loss, operating expense, general expense, and commercial vehicle and driver services. The net effect was a slight increase to the majority of expense related target ratios. The results are based on the information contained in ICBC's claims and financial systems. Comparison to industry results is provided where reliable data is available.

COMBINED RATIO

The combined ratio is a key measure within the insurance industry for overall profitability. This measure is calculated as the ratio of insurance costs (claims costs, claims related costs, and insurance operating costs[12]) to insurance premium dollars earned. This measure excludes expenses for non-insurance services, deferred premium acquisition cost adjustments and restructuring costs. Essentially, a ratio of below 100 percent indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.

ICBC's performance improved significantly over the year as seen in the decline in the combined ratio. This performance is due primarily to the significant reduction in insurance operating costs as the corporation carried through with many of the cost reduction measures started in late 2001. The corporation also saw an increase in premiums earned of 7.4%. Both of these results have a downward impact on the combined ratio, an impact that has enabled ICBC to outperform its 2002 target of 113.3%.

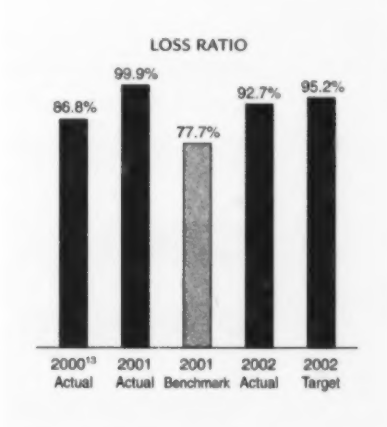
In assessing ICBC's performance relative to industry, a comparison can only be made to the results for 2001, as the industry results for 2002 are not yet available. This comparison shows that ICBC's ratio of 108.1% is similar to the 2001 industry combined ratio of 108.6%[14].



LOSS RATIO

In 2002, ICBC was successful in reducing the loss ratio by almost 7.2% to 92.7%, thereby outperforming the corporate target of 95.2%. This improvement can be attributable to:

- Product changes implemented in late 2001, which improved product profitability in 2002 (e.g. windshield and comprehensive coverages); and
- Decrease in claims service costs of 10.7% from a reduction in staffing and streamlining of functions throughout claims operations; and
- Increase in premiums earned of 7.4%.



[12] For 2002, the combined ratio does not include non-insurance costs. The calculation was changed for the development of the 2003 Service Plan.
[13] The combined and loss ratios benefited from significant favourable prior years' adjustments in 2000.
[14] A.M. Best Canada Ltd. Best's Key Rating and Statistical Guide, Property & Casualty, 2002 Edition (2001 Operating results for Canadian P&C companies). All benchmarks use Best's 2001 data as this is the most recent data available.

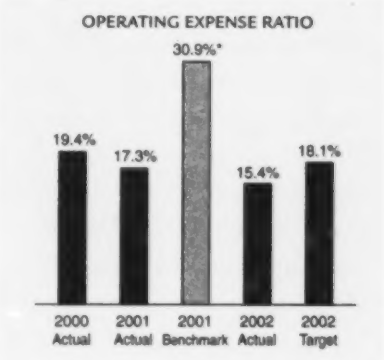
All of these factors contributed towards the decline in the loss ratio. The loss ratio is another key performance indicator within the insurance industry of the insurance product's profitability. The lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims and claims related costs including loss management and road safety costs, to insurance premiums earned.

Despite this improvement in the loss ratio, ICBC's results are higher relative to the P&C industry loss ratio. The primary reasons are ICBC's mandate to provide affordable insurance to all drivers in BC and its current underwriting criteria for basic insurance of not discriminating on the basis of age, sex or marital status. In 2001, the industry ratio was 77.7%[15] as compared to ICBC's current loss ratio of 92.7%. The 2002 industry loss ratio is not yet available.

OPERATING EXPENSE RATIO

During the year, ICBC realized significant savings in its operating costs for the insurance business. These savings are the culmination of the streamlining and consolidation initiatives started in 2001, which resulted in a decrease in the operating expense ratio to 15.4% for 2002, and outperformed the target of 18.1%. This measure is an assessment of ICBC's overall efficiency in the non-claims area of the insurance business, and does not include non-insurance costs, deferred premium acquisition cost adjustments and restructuring costs. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid to government on premiums written, and underwriting costs (product development).

Compared to the P&C industry, ICBC's operating expense ratio of 15.4% is significantly lower than the industry ratio of 30.9%.[15] Within this, ICBC believes that the average expense ratio for auto insurance is 25-27% in 2001. Private insurers have higher commission, marketing and underwriting, and general administrative costs relative to ICBC. Industry results for 2002 are not available at this time.

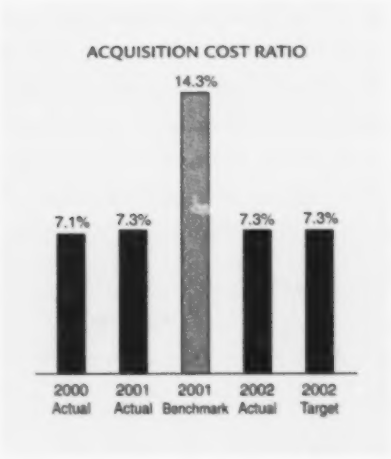


*Average expense ratio for auto insurance is believed to be 25-27% in 2001, according to Insurance Bureau of Canada.

[15] A.M. Best Canada Ltd. Best's Key Rating and Statistical Guide, Property & Casualty, 2002 Edition (2001 Operating results for Canadian P&C companies). All benchmarks use Best's 2001 data as this is the most recent data available.

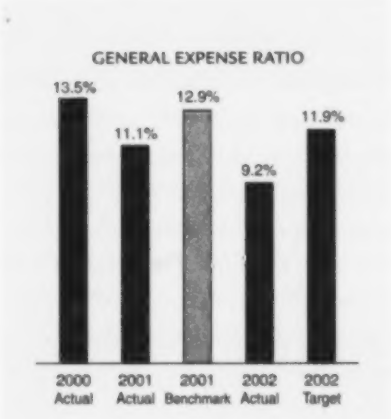
ACQUISITION COST RATIO

Commission costs and rates remained fairly stable over the years and for 2002, ICBC met its target. This ratio measures the average commission for each insurance premium dollar earned and includes the acquisition costs for insurance (basic and optional) and non-insurance services. This measure excludes adjustments to deferred premium acquisition costs.



GENERAL EXPENSE RATIO

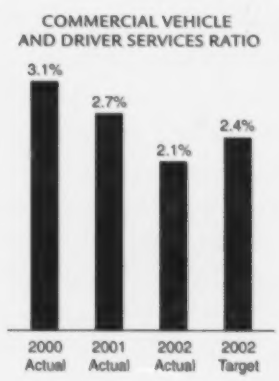
In 2002, ICBC's general expense ratio came in well under target and has declined for the second consecutive year. This significant improvement is the measure of success for ICBC's strategy to become fiscally responsible and achieve operational excellence. Since 2001 when the corporation embarked down this road, controllable costs have declined by $173.8 million, of which $104.6 was achieved in 2002. Compared to the P&C industry general expense ratio of 12.9% in 2001[16], ICBC has been able to operate efficiently and at a lower level of costs. This measure provides an assessment of the corporation's operational efficiency and represents ICBC's costs for administration, internal costs associated with servicing the Autoplan product and premium taxes expressed as a percentage of premiums earned. This measure also includes the administrative costs associated with non-insurance services, which are not incurred by industry and ICBC has still been able to achieve a lower ratio.



[16] A.M. Best Canada Ltd. Best's Key Rating and Statistical Guide, Property & Casualty, 2002 Edition (2001 Operating results for Canadian P&C companies). All benchmarks use Best's 2001 data as this is the most recent data available.

COMMERCIAL VEHICLE AND DRIVER SERVICES RATIO

In 2002, costs of providing commercial vehicle and driver services were reduced as part of the overall corporate strategy for making ICBC more effective and efficient. There was a reduction in staffing levels and discretionary costs in this area as evidenced by the decline in the measure from 2.7% in 2001 to 2.1% in 2002. In 2003, the compliance vehicle function is scheduled to be transferred to the provincial government and ICBC is committed to continue funding the function for a period of three years. This measure represents the amount ICBC spends in commercial vehicle services and driver services expressed as a percentage of premiums earned.

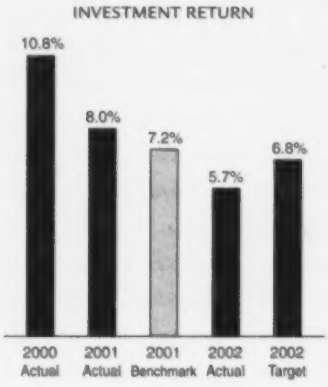


INVESTMENT RETURN

ICBC manages an investment fund of $5.9 billion with approximately 71.0% of the portfolio invested in highly rated bonds, and the remainder in mortgages, equities and real estate.

For 2002, markets performed poorly during the year, and as a result, ICBC's investment income declined to $327.3 million. The decline arises primarily from lower interest income, lower bond gains, and increased equity losses partially due to a write down to market value for certain equities. As a result, investment return has decreased to 5.7% as compared to 8.0% in 2001. This measure is calculated as the ratio of investment income over the average book value of the investment portfolio.

Lower investment income is an issue faced by the P&C industry as a whole. ICBC's 2001 investment return of 8.0% outperformed the industry return of 7.2%[17]. When reviewing ICBC's performance on a market value basis, the corporation's investment performance has exceeded the performance of most P&C insurers in Canada.



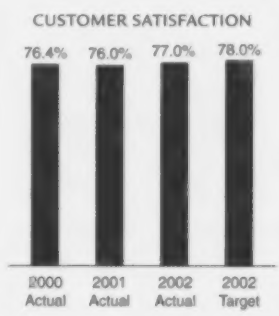
[17] A.M. Best Canada Ltd. Best's Key Rating and Statistical Guide, Property & Casualty, 2002 Edition (2001 Operating results for Canadian P&C companies). All benchmarks use Best's 2001 data as this is the most recent data available.

INJURY FREQUENCY

There are many reasons for the decline in the injury frequency including the continuing success of our road safety programs, better weather, enhanced safety features in newer vehicles and possible changes in driving patterns. This measure represents the annual number of injuries for every 10,000 vehicle policy years and is based on the total number of claims reported to ICBC by injured claimants. A policy year represents one year of insurance coverage. Annual numbers have been presented, as opposed to monthly averages as stated in the 2002-2004 Service Plan as this was considered to be more precise. Prior years' data is not available as reported in ICBC's Service Plan 2002 - 2004. Reliable industry data is not available for comparative purposes.

CUSTOMER SATISFACTION

This measures the percentage of customers satisfied with a recent transaction with ICBC, whether it be an Autoplan, driver service and licensing or claims transaction. Overall, ICBC improved slightly over 2001. The ability to maintain or increase the level of customer satisfaction during this past year of uncertainty and fiscal restraint is an achievement in itself. With the departure of a significant number of employees in late 2001 and throughout 2002, services had to be maintained and changes implemented with fewer resources available. For 2003 onwards, more specific measures are considered necessary to monitor the corporation's performance in different segments of its business and to track the impact of various customer service intitiatives. This measure will be replaced with more detailed measures for 2003 as described in ICBC's Service Plan 2003-2005.



AUTO CRIME RATE

This measure is based on the total number of theft from, total theft (claims involving the theft of the vehicle itself) and vandalism claims reported to ICBC. In late 2001, ICBC raised the minimum deductible for comprehensive claims from $100 to $300. This resulted in ICBC receiving significantly fewer claims since claims would only be reported in situations where damages exceed the higher deductible amount. With this change, it is difficult to isolate the impact of loss management activities directed at auto crime. Although the data for 2002 shows a marked improvement, it would be inappropriate to attribute these results solely to ICBC efforts in controlling auto crime and therefore has not been reported for 2002. Prior years' data is not available as reported in ICBC's Service Plan 2002 - 2004.

CUSTOMER CONFIDENCE INDEX

In 2002, it was recognized that specific measures would be necessary to monitor the corporation's performance in different segments of its business and to track the impact of various customer service intitiatives. The Customer Confidence Index was determined to be inappropriate for this, and will be replaced for 2003. ICBC's Service Plan 2003-2005 provides further detail of the new measures.

Management's Responsibility for Financial Statements

SCOPE OF RESPONSIBILITY

Management prepares the accompanying financial statements and related information and is responsible for their integrity and objectivity. The statements were prepared in conformity with Canadian generally accepted accounting principles. These financial statements include amounts that are based on management's estimates and judgments, particularly our reserves for unpaid claims. We believe that these statements present fairly the Corporation's financial position and results of operations and that the other information contained in the annual report is consistent with the financial statements.

INTERNAL CONTROLS

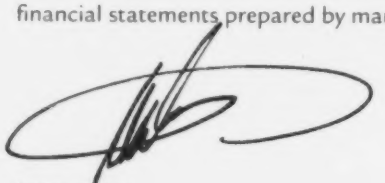
We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Our Corporate Audit Services department also independently reviews and evaluates these controls. We recognize the inherent limitations in all control systems and believe that our systems provide an appropriate balance between costs and benefits desired. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

AUDIT COMMITTEE

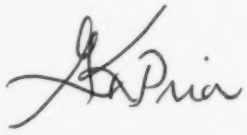
The Audit Committee, composed of members of the Board of Directors, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management, our internal auditors and representatives of our external auditors to discuss auditing, financial reporting and internal control matters. Both internal and external auditors have access to the Audit Committee without management's presence.

INDEPENDENT AUDITORS

Our independent auditors, PricewaterhouseCoopers LLP, have audited the financial statements. Their audit was conducted in accordance with Canadian generally accepted auditing standards, which includes the consideration of our internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.



NICK GEER
President
and Chief Executive Officer
February 7, 2003



GERI PRIOR
Vice-President, Finance
and Chief Financial Officer
February 7, 2003

Auditors' Report

The Honourable Gary Collins
Minister of Finance
Province of British Columbia

We have audited the consolidated statements of financial position of the Insurance Corporation of British Columbia as at December 31, 2002 and 2001 and the consolidated statements of operations and retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
February 7, 2003

Actuary's Report

I have valued the policy liabilities in the consolidated statements of financial position of the Insurance Corporation of British Columbia as at 31 December 2002 and their changes in its consolidated statements of operations and retained earnings for the year ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. It is the accounting policy of the Corporation to not reflect the time value of money when stating certain policy liabilities. My valuation is consistent with that policy (see note 2).

In my opinion, except as noted in the previous paragraph, the amount of the policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

William T. Weiland

William T. Weiland
Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.
Vancouver, British Columbia
February 7, 2003

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the years ended December 31, 2002 and 2001

($ THOUSANDS)	2002	2001
REVENUE		
Vehicle premiums written	$ 2,737,358	$ 2,477,495
Driver premiums written	21,456	21,384
	$ 2,758,814	$ 2,498,879
Vehicle premiums earned	$ 2,606,617	$ 2,425,288
Driver premiums earned	21,876	21,778
TOTAL PREMIUMS EARNED	2,628,493	2,447,066
CLAIMS AND RELATED COSTS		
Claims incurred (note 6)	2,193,492	2,126,250
Claims services	230,409	257,969
Road safety and loss management services	38,027	58,563
	2,461,928	2,442,782
Operating costs - insurance (note 9)	374,711	472,541
TOTAL CLAIMS AND OPERATING COSTS	2,836,639	2,915,323
Underwriting loss before prior years' claims adjustments	(208,146)	(468,257)
Prior years' claims adjustments (note 6)	24,791	(2,230)
UNDERWRITING LOSS	(183,355)	(470,487)
Investment income (note 4d)	327,269	453,955
INCOME (LOSS) - INSURANCE OPERATIONS	143,914	(16,532)
Licences and fines collected on behalf of the Province (note 12)	416,933	424,630
Licences and fines transferred to the Province (note 12)	416,933	424,630
Operating costs - non-insurance (note 9)	83,737	94,442
	500,670	519,072
LOSS - NON-INSURANCE OPERATIONS	(83,737)	(94,442)
INCOME (LOSS) BEFORE THE UNDERNOTED NON-RECURRING ITEMS	60,177	(110,974)
Restructuring costs (note 10)	15,209	39,545
Lease termination settlement (note 11)	(41,100)	-
Provision for diminution in value of investments (note 4c)	41,100	100,000
NET INCOME (LOSS) FOR THE YEAR	44,968	(250,519)
RETAINED EARNINGS		
Retained earnings, beginning of year	269,222	519,741
Retained earnings, end of year	$ 314,190	$ 269,222

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2002 and 2001

($ THOUSANDS)	2002	2001
ASSETS		
Cash	$ 3,054	$ 11,852
Investments (note 4)	5,854,883	5,536,510
Accrued interest	54,774	59,235
Premiums and other receivables	46,224	51,562
Deferred premium acquisition costs and prepaids (note 9a)	64,236	20,169
Accrued pension benefit (note 8)	27,148	15,593
Property and equipment (note 5)	96,630	129,649
	$ 6,146,949	$ 5,824,570
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 39,393	$ 39,519
Accounts payable and accrued charges	183,310	201,481
Accrued post-retirement benefits (note 8)	60,138	50,872
Premiums and fees received in advance	32,400	29,445
Deferred investment gains and losses (note 3)	-	26,651
Unearned premiums	1,293,389	1,163,068
Unpaid claims (note 6)	4,224,129	4,044,312
	5,832,759	5,555,348
RETAINED EARNINGS	314,190	269,222
	$ 6,146,949	$ 5,824,570

Contingent liabilities and commitments (note 15)

Approved by the Board

NICK GEER
Chair of the Board of Directors

BOB QUART
Vice-Chair of the Board of Directors

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 2002 and 2001

($ THOUSANDS)	2002	2001
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES		
CASH RECEIVED FROM:		
Agents for vehicle premiums, licence fees and social service taxes	$ 3,301,773	$ 2,982,898
Collection for driver penalty point premiums, subrogation and other receivables	295,072	255,447
Salvage sales	51,744	46,903
Interest	259,637	296,079
Dividends and other investment income	35,631	49,370
Other	2,762	286
	3,946,619	3,630,983
CASH PAID TO:		
Claimants or third parties on behalf of claimants	(2,097,321)	(2,078,420)
Province of BC for licence fees and social service taxes collected	(459,894)	(396,506)
Suppliers of goods and services	(209,019)	(300,514)
Employees for salaries and benefits	(358,429)	(376,702)
Agents for commissions	(191,422)	(179,880)
Policyholders for premium refunds	(214,220)	(189,547)
Policyholders for road safety dividend (note 13)	-	(218,500)
Province of BC for premium taxes	(94,318)	(89,914)
	(3,624,623)	(3,829,983)
Cash flow from (used in) operating activities	321,996	(199,000)
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		
Change in net investments	(329,493)	254,394
Payments to vendors of land, buildings and equipment	(9,799)	(30,510)
Proceeds from sale of land, buildings and equipment	8,624	1,677
Cash flow from (used in) investing activities	(330,668)	225,561
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(8,672)	26,561
Cash and cash equivalents, beginning of year	(27,667)	(54,228)
Cash and cash equivalents, end of year	$ (36,339)	$ (27,667)
REPRESENTED BY:		
Cash	$ 3,054	$ 11,852
Cheques outstanding	(39,393)	(39,519)
	$ (36,339)	$ (27,667)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2002 and 2001

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation) is a Crown Corporation incorporated in 1973 and continued under the Insurance Corporation Act, R.S.B.C. 1996 Chapter 228. The Corporation operates and administers a plan of automobile insurance as established under the Insurance (Motor Vehicle) Act and, as required by legislation, reports the revenues and expenses attributable to that plan separately from other operations of the Corporation, if any.

The Corporation provides mandatory basic insurance coverage, which includes $200,000 third party legal liability protection and $150,000 accident benefits to help with the immediate and long term needs of crash victims to all licensed vehicle owners in BC. The Corporation also offers extended third party legal liability and other optional insurance coverage in a competitive environment. The Corporation's products are marketed through over 900 independent agents located throughout the Province. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary auto insurer.

Under the Insurance Corporation and Motor Vehicle Acts, the Corporation is also responsible for non-insurance services including vehicle licensing, registration and issuance of driver licences, as well as services constituting Compliance Operations: vehicle standards and inspections, commercial transport regulation, weigh scale operations, enforcement of vehicle weights and dimensions, motor carrier licensing support, road inspections, and enforcement and compliance audits. Discussions are currently underway to transfer Compliance Operations to the provincial government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles as required by the Insurance Corporation Act. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary company, ICBC Properties Ltd.

Investments and Investment Income

Bonds and mortgage-backed securities are valued at amortized cost with any premium or discount on purchase being deferred and amortized over the average term to maturity. Money market securities and equities are valued at cost. Income on interest-bearing securities is accrued daily. Real estate held for investment consists of income-producing properties which are recorded at cost less accumulated amortization and provision for diminution in value. Dividends on equity investments are recognized as income on their payment dates. If the value of an investment suffers a loss in value that is other than temporary, the investment is adjusted to the estimated realizable value with the adjustment being included in the statement of operations.

Derivative financial instruments are utilized to reduce interest rate and currency risk on the Corporation's obligations. The Corporation does not enter into derivative financial instruments for trading or speculative purposes.

The Corporation's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified obligation. The Corporation believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the obligation being hedged.

Interest rate swap agreements involve the periodic exchange of payments, without the exchange of the notional principal amount upon which the payments are based, recorded as an adjustment against the costs of the obligation. Cross currency interest rate swaps involve the exchange of both principal amount and fixed and floating interest rate payment obligations in two different currencies. Any gains or losses on these derivative financial instruments are offset against the corresponding gains or losses on the obligation being hedged.

In the event of early extinguishment of the obligation, any realized or unrealized gain or loss from a swap would be recognized in the statement of operations at that time.

The Corporation also participates in the sale and repurchase of Government of Canada bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repo rate determining the forward contract price. Under the terms of the sale and repurchase agreement, the payments associated with the bond repurchase may be settled on a net basis. These sale and repurchase arrangements are accounted for as secured financings. As the repurchase payments may be settled on a net basis, the repurchase obligation has been recorded against the carrying value of these bonds.

Capital gains and losses on money market securities, bonds, equities and other investments are included in income in the period realized (see note 3).

Pensions and Post-Retirement Benefits

The Corporation accounts for employee future benefits by accruing its obligations net of plan assets using the following rules:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs.
- The expected return on plan assets is calculated using the fair value of the assets.
- Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the 14 year expected average remaining service period of active employees.

Certain employees, formerly of the Motor Vehicle Branch, belong to the BC Public Service Pension Plan. Defined contribution plan accounting is applied to the contribution to the BC Public Service Pension Plan.

Property and Equipment

Property and equipment is recorded at cost less accumulated amortization. Software development costs, which comprise labour and material costs for design, construction, testing, implementing and other related costs, are capitalized for major infrastructure projects expected to be of continuing benefit to the Corporation. Other development costs such as preliminary research, design and development expenses relating to information technology projects, and expenses related to re-engineering efforts are expensed as incurred where the potential future benefits are uncertain or not quantifiable.

Amortization is provided on a straight-line basis at the following rates: buildings 5 - 10%, furniture and equipment 10 - 33% and software 10 - 33%. Leasehold improvements are amortized over the term of each lease.

Unearned Premiums

The Corporation earns vehicle and driver premiums evenly over the term of each vehicle policy or the driver's penalty point year, respectively. Unearned premiums is the portion of premiums relating to the unexpired term.

Deferred Premium Acquisition Costs

Deferred premium acquisition costs, represented by commissions and premium tax expenses, relate directly to the writing of policies and, to the extent recoverable from unearned premiums, are deferred and amortized to income over the term of the policies. The method followed in determining the deferred premium acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, claims costs and adjustment expenses expected to be incurred as the premiums are earned.

Unpaid Claims

The provision for unpaid claims includes an estimate for reported and unpaid claims and expenses as well as an estimate for claims incurred but not reported in the year. These are determined based on the claims settlement experience of the Corporation, current trends and a detailed regular review and update. This provision is carried on a non-discounted basis so that the claims liabilities are not reduced as a result of the delay between the time the claims were established and the date of the final settlement.

The provision for unpaid claims is an estimate subject to variability which could be material in the near term. All changes to the estimate are recorded as incurred claims and prior years' adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

The estimation of claims development involves assessing the future behaviour of claims taking into consideration the consistency of the Corporation's claim handling procedures, the amount of information available and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates become. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The ultimate cost of long settlement liability claims is difficult to predict for several reasons, including claims not being reported until many years after a policy term, or changes in the legal environment. Provisions for such difficult to estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sum payments (see note 15).

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims. (see note 15).

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The more subjective of such estimates are unpaid claims, provisions for doubtful accounts and deferred premium acquisition costs. Management believes its estimates to be appropriate; however, actual results may be significantly different from these estimates and would be reflected in applicable future periods.

3. CHANGE IN ACCOUNTING POLICY

In 2001 the Corporation changed its accounting policy for the recognition of realized gains and losses on bond sales to be consistent with the treatment used to recognize other investment gains and losses (see note 2). The previous policy deferred and amortized bond gains and losses over the term to maturity or 60 months, whichever was less. As a result of the change in accounting policy, bond gains realized in 2002 of $49.9 million (2001 - $81.9 million) were recognized immediately, and previously deferred bond gains of $26.7 million (2001 - $69.5 million) were amortized to investment income.

Management considers this change of recognizing bond gains and losses in income in the period realized more appropriate and consistent with accepted industry practice.

4. INVESTMENTS

($ THOUSANDS)	2002		2001	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Money market securities	$ 244,492	$ 244,492	$ 38,870	$ 38,870
Bonds				
Federal	1,913,052	1,955,233	1,627,661	1,645,508
Bond repurchase obligation (note 2)	(233,883)	(233,883)	(265,651)	(265,651)
	1,679,169	1,721,350	1,362,010	1,379,857
Provincial	503,985	537,188	726,605	745,551
Municipal	415,188	446,572	473,273	487,067
Corporate	1,342,337	1,394,007	1,738,630	1,788,331
Global	216,514	219,787	-	-
Total bonds	4,157,193	4,318,904	4,300,518	4,400,806
Mortgages	370,803	384,899	278,166	296,183
Equities (note 4d)	882,859	908,792	745,050	898,645
	1,253,662	1,293,691	1,023,216	1,194,828
Real estate	340,636	188,244	273,906	165,506
Provision for diminution in value of investments (note 4c)	(141,100)	-	(100,000)	-
	199,536	188,244	173,906	165,506
	$ 5,854,883	$ 6,045,331	$ 5,536,510	$ 5,800,010

The estimated fair value of money market securities is cost. The estimated fair value for equities, bonds and mortgages is based on market values. The estimated fair value of real estate is based on the most recent B.C. Assessment Authority values, except for the Central City development in Surrey whose estimated fair value is cost adjusted for a provision as described in (c) below.

The total notional amount of interest rate swaps outstanding at December 31, 2002 is $143.6 million (2001 - $163.9 million). The notional amount of cross-currency interest rate swaps outstanding at December 31, 2002 is $60.3 million (2001 - $99.4 million).

At December 31, 2002, these swap contracts all had remaining terms between one and five years with an average receiving floating interest rate of the three month Canadian Deposit Overnight Rate (CDOR) plus 23.91 basis points (2001 - 25.6 basis points) and an average pay interest rate of 7.13% (2001 - 7.26%). The interest swaps had an estimated negative value of $14.7 million as at December 31, 2002 (2001 - negative $22.0 million). These negative values have been reflected in the estimated fair value of bonds.

The Corporation no longer deals in equity derivatives. In 2001, the Corporation sold equity put and covered call option contracts which potentially obligated it to purchase $7.3 million and/or sell $5.7 million in Canadian equities. As at December 31, 2001, the estimated value of these options was negative $0.3 million. This negative value has been reflected in the estimated fair value of equities.

a) Fixed income – interest rate risk

	2002		2001	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds				
Federal	4.5	4.6	5.3	6.6
Provincial	6.6	7.6	6.1	7.4
Municipal	6.3	5.7	6.3	6.6
Corporate	5.9	3.5	6.0	3.9
Global	3.6	5.7	-	-
Total bonds	5.3	4.8	5.8	5.6
Mortgages	6.6	2.8	6.9	2.9
Total bonds and mortgages	5.4	4.6	6.0	5.5

b) Fixed income – maturity profile

A significant business risk of the insurance industry is to match the cash flows of the investment portfolio with the requirements of the policy liabilities in order to mitigate liquidity risk. The timing of most policy liability payments is not known, and may take considerable time to determine precisely, or may be paid in partial payments.

The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics with the investment portfolio.

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
2002				
Bonds				
Federal	$ 41,107	$ 1,265,396	$ 372,666	$ 1,679,169
Provincial	30,343	21,845	451,797	503,985
Municipal	-	80,489	334,699	415,188
Corporate	60,903	804,803	476,631	1,342,337
Global	-	120,065	96,449	216,514
Total bonds	132,353	2,292,598	1,732,242	4,157,193
Mortgages	26,284	335,734	8,785	370,803
Total bonds and mortgages	$ 158,637	$ 2,628,332	$ 1,741,027	$ 4,527,996
2001				
Bonds				
Federal	$ 62,296	$ 466,578	$ 833,136	$ 1,362,010
Provincial	-	48,424	678,181	726,605
Municipal	-	81,113	392,160	473,273
Corporate	262,178	1,032,054	444,398	1,738,630
Total bonds	324,474	1,628,169	2,347,875	4,300,518
Mortgages	46,659	214,897	16,610	278,166
Total bonds and mortgages	$ 371,133	$ 1,843,066	$ 2,364,485	$ 4,578,684

c) Provision for diminution in value of real estate investments

In 2002 the Corporation undertook a further assessment, which included independent market appraisals, of its investment in the Central City development. As a result of the assessment the Corporation took a further provision of $41.1 million for a cumulative provision of $141.1 million.

d) Investment income

($ THOUSANDS)	2002	2001
Interest, dividend and other income		
Money market	$ 6,809	$ 11,775
Bonds	223,595	255,090
Equities	16,418	17,865
Mortgages	22,683	18,431
Real estate and other	10,991	13,277
	280,496	316,43µ8
Gains (losses) on the sale of investments		
Equities	9,055	(13,887)
Write-down of equities	(38,852)	-
Bonds - realized (note 3)	49,919	81,876
Bonds - amortized (note 3)	26,651	69,528
	46,773	137,517
Total investment income	$ 327,269	$ 453,955

At December 31, 2002, the value of certain equities held in the investment portfolio had suffered an impairment in value that is considered as other than temporary. As such, these equities have been written down to the estimated realizable value.

e) Securities lending

The Corporation participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commissions on transactions as earned. At December 31, 2002 securities with an estimated fair value of $368 million (2001 - $441 million) have been loaned and securities with an estimated fair value of $393 million (2001 - $468 million) received as collateral.

5. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2002		2001	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 27,264	$ 27,264	$ 27,323	$ 27,323
Buildings	140,145	41,967	146,414	45,115
Furniture and equipment	136,744	17,985	152,005	38,007
Software	15,732	5,676	15,732	7,175
Leasehold improvements	10,190	3,738	18,089	12,029
	$ 330,075	$ 96,630	$ 359,563	$ 129,649

Amortization expense for the year ended December 31, 2002 amounted to $23.6 million (2001 - $31.8 million). In an ongoing effort to streamline operations the Corporation has decided to consolidate a number of operating facilities, vacating some facilities which are now held for disposal. As at December 31,2002 the net book value of surplus buildings and land held for disposal is $3.5 million and $2.8 million respectively.

6. UNPAID CLAIMS

The changes in unpaid claims recorded in the consolidated statements of financial position as at December 31, 2002 and 2001 and their impact on claims incurred for the year are as follows:

($ THOUSANDS)	2002	2001
Unpaid claims - beginning of year	$ 4,044,312	$ 3,889,839
Provision for losses and expenses for claims occurring in the current year	2,193,492	2,126,250
Increase (decrease) in estimated losses and expenses for losses occurring in prior years	(24,791)	2,230
Unpaid claims liabilities	6,213,013	6,018,319
Less:		
Payments on claims incurred in the current year	952,840	942,739
Payments on claims incurred in prior years	1,145,622	1,140,918
Recoveries on claims	(109,578)	(109,650)
Claims payments net of recoveries	1,988,884	1,974,007
Unpaid claims - end of year	$ 4,224,129	$ 4,044,312
Unpaid claims - payable within one year	$ 1,361,623	$ 1,338,607
Unpaid claims - payable beyond one year	2,862,506	2,705,705
Total unpaid claims	$ 4,224,129	$ 4,044,312

7. REINSURANCE

The Corporation has a five year contract expiring December 2003 for casualty and catastrophe reinsurance to protect against significant losses as follows:

a) up to $100 million in excess of $25 million annually for catastrophic occurrences;
b) up to $75 million in excess of $72 million annually for aggregate pool coverage comprised of the excess over $1 million on individual loss occurrences, subject to limits in (c); and
c) up to $12 million in excess of $3.5 million for individual loss occurrences.

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. The Corporation estimates that the amount recoverable under these arrangements is $19.3 million (2001 - $10.6 million). To date, the Corporation has made claims totaling $2.7 million against this policy.

8. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation maintains contributory, defined benefit pension plans (the "Pension Plans") that provide retirement benefits for regular employees, other than the employees of the former Motor Vehicle Branch (see note 2), based on their length of service and highest five years' average earnings. The Pension Plans are funded through trust funds held by a corporate trustee separately from all other assets of the Corporation. The Corporation pays post-retirement benefits for its retirees, which are Medical Services Plan and life insurance premiums, and extended healthcare and dental costs. Benefit entitlements differ for management and bargaining unit staff.

Information regarding the Pension Plans and post-retirement benefits is as follows:

	Pension Plans		Post-retirement Benefits	
($ THOUSANDS)	2002	2001	2002	2001
Plan assets				
Fair value at beginning of year	$ 577,837	$ 553,716	$ -	$ -
Actual return on plan assets	(15,151)	17,186	-	-
Employer contributions	9,139	7,982	591	508
Employees' contributions	11,073	9,984	-	-
Benefits paid	(18,638)	(11,031)	(591)	(508)
Fair value at end of year	564,260	577,837	-	-
Accrued benefit obligation				
Balance at beginning of year	445,605	417,178	45,483	41,838
Current service cost and employees' contributions	30,449	32,632	6,321	6,197
Plan adjustments	(4,530)	-	(2,412)	-
Interest cost	32,355	31,100	3,606	3,345
Actuarial (gains) losses	48,749	(24,274)	10,900	(5,389)
Benefits paid	(18,638)	(11,031)	(591)	(508)
Balance at end of year	533,990	445,605	63,307	45,483
Funded status – plan surplus (deficit)	30,270	132,232	(63,307)	(45,483)
Unamortized net actuarial losses (gains)	98,697	(8,920)	5,581	(5,389)
Unamortized plan adjustments	-	-	(2,412)	-
Unamortized transitional asset	(101,819)	(107,719)	-	-
Accrued benefit asset (liability)	$ 27,148	$ 15,593	$ (60,138)	$ (50,872)

The Pension Plans' assets consist of Canadian and foreign equities and government and corporate debt instruments.

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	Pension Plans		Post-retirement Benefits	
($ THOUSANDS)	2002	2001	2002	2001
Accrued benefit obligation and plan deficit	$ 7,140	$ 10,067	$ 63,307	$ 45,483

The Corporation's net benefit plan expense (recovery) for the Pension Plans and post-retirement benefits is as follows:

	Pension Plans		Post-retirement Benefits	
($ THOUSANDS)	2002	2001	2002	2001
Current service cost	$ 19,376[1]	$ 22,648[1]	$ 6,321	$ 6,197
Interest cost	32,355	31,100	3,606	3,345
Expected return on plan assets	(43,397)	(44,574)	-	-
Amortization of transition assets	(5,901)	(8,705)	-	-
Plan adjustments	(4,530)	-	-	-
Amortization of net actuarial gain	(319)	-	(70)	-
Net expense (recovery)	$ (2,416)	$ 469	$ 9,857	$ 9,542

[1] net of employee's contributions of $11,073,000 (2001 - $9,984,000).

The Corporation contributed $1.7 million in 2002 (2001 - $2.0 million) to the BC Public Service Pension Plan.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension Plans		Post-retirement Benefits	
	2002	2001	2002	2001
Discount rate	6.5%	7.0%	6.5%	7.0%
Expected long-term rate of return on plan assets	7.0%	7.5%	-	-
General rate of compensation increase (a)	3.5%	3.5%	3.5%	3.5%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services Plan trend rate	-	-	0.0%	0.0%
Dental trend rate	-	-	3.0%	3.0%

a) There is a promotion increase assumption in addition to an across-the-board increase assumption.
Extended healthcare trend rates are 25% for 2002, 10% per year for 2003-2011, 6% in 2012 and beyond

9. OPERATING COSTS

The Corporation's activities include insurance and non-insurance operations as described in note 1. Details of the expenses for the years ending 2002 and 2001 are as follows:

($ THOUSANDS)	2002	2001
Operating costs - insurance		
Administrative and other expenses	$ 100,850	$ 137,285
Autoplan services	24,083	33,498
Commissions (note 9a)	156,259	197,948
Premium taxes (note 9a)	93,519	103,810
	$ 374,711	$ 472,541
Operating costs - non-insurance		
Administrative and other expenses	$ 12,180	$ 12,229
Commissions (note 9a)	15,427	15,500
Commercial vehicle services	24,200	29,005
Driver services	31,930	37,708
	$ 83,737	$ 94,442

Administrative and other, and commissions expenses have been allocated to non-insurance based on the estimated effort related to these activities.

a) At year end, premium acquisition costs (deferrable commissions and premium taxes), which have been deferred over the period of the premiums to which they relate, are evaluated to determine if any of these costs are not expected to be recovered from unearned premiums. In 2002, the evaluation indicated that of the total deferrable acquisition expenses of $146 million (2001 - $132 million), $62 million (2001 - $17 million) were recoverable. As a result the commission and premium tax expense reflected in the statement of operations is as follows:

($ THOUSANDS)	2002	2001
Commission expense for the year	$ 191,724	$ 178,462
Change in deferrable costs	(20,038)	34,986
	$ 171,686	$ 213,448
Represented as:		
Commission expense - insurance	$ 156,259	$ 197,948
Commission expense - non-insurance	15,427	15,500
	$ 171,686	$ 213,448
Premium tax expense for the year	$ 104,404	$ 89,796
Change in deferrable costs	(10,885)	14,014
	$ 93,519	$ 103,810

10. RESTRUCTURING COSTS

The Corporation has incurred costs to restructure its operations to improve efficiencies and be more competitive. These costs consist mainly of severance arrangements, the cost of relinquishing leased premises and other costs of consolidating operations. As at December 31, 2002 accounts payable and accrued charges includes $6.9 million (2001- $30.8 million) in respect of these costs.

11. LEASE TERMINATION SETTLEMENT

The original plans for the Central City development included the Technical University of BC ("Tech BC") as one of the main anchor tenants. However, in early 2002, the provincial government revised its priorities and suspended operation of Tech BC, resulting in cancellation of the lease agreement. Tech BC paid $41.1 million to ICBC Properties Limited as compensation for terminating the lease.

12. RELATED PARTY TRANSACTIONS

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes on privately sold used vehicles and motor vehicle related debts. The Corporation is the sole provider of compulsory automobile insurance in British Columbia and, therefore, insures at market rates an indeterminate number of vehicles owned or leased by the government of the Province and its controlled entities. As a consequence of these relationships, the Corporation has at any time amounts owing to or from various government departments or ministries in the ordinary course of business.

The Corporation is responsible for collecting all vehicle-related revenue for acquiring and distributing licence plates and decals, including permit and other fees under the Motor Vehicle Act and fines under the Offense Act. Revenues from the sale of drivers and other licences and permits are recorded as they are received and revenues from fines are recognized on an accrual basis. Funds are remitted to the Province of British Columbia as they are received. The costs associated with the licence and compliance activities conducted on behalf of the Province are borne by the Corporation and are included in the consolidated statements of operations as operating costs, non-insurance.

Other related party transactions have been disclosed elsewhere in the financial statements.

13. ROAD SAFETY DIVIDEND

By a special Board resolution in 2000, the Corporation paid its policyholders a road safety dividend in early 2001. This dividend was paid in the form of cash to policyholders, including fleets, and totaled $218.5 million, including direct distribution costs.

14. FAIR VALUE

Fair value represents a year end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than unpaid claims (notes 2 and 6), investments (note 4) and post-retirement benefits (note 8), approximate their carrying value.

15. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined

by an ongoing analysis of total assets, credit rating reports and past service history. The gross amount of these structured settlements at December 31, 2002 is approximately $569 million (2001 - $537 million). To date the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) In the normal course of business, the Corporation has entered into significant finance contracts through a financial institution under its Autoplan6 and Autoplan12 programs whereby policyholders finance their Autoplan premiums. The Corporation has provided guarantees to the financial institution for the total amount outstanding at any time. In 2002 the total amount financed was approximately $1.2 billion (2001 - $1.1 billion).

c) The Corporation at December 31, 2002 has $2.4 million (2001 - $57.2 million) in outstanding commitments related to the Central City development, whose estimated net development cost is $224.5 million (note 4).

d) Across Canada, lawsuits have been launched alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. A class action lawsuit has been started against ICBC but has not yet been certified.

There has been both success and failure of these class actions in other jurisdictions. The Corporation's management has determined that it is unable to reasonably assess the likelihood of the success of this legal action and therefore has not accrued for any potential lawsuit awards.

e) The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years are as follows:

($ THOUSANDS)	
2003	$ 9,905
2004	6,815
2005	4,418
2006	2,666
2007	1,854
	$ 25,658

16. ROLE OF THE ACTUARY AND AUDITORS

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with generally accepted actuarial practice and regulatory requirements and report thereon. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary in his verification of the underlying data used in the valuation also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of Directors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the provision for claims and claims expenses, unearned premiums and deferred premium acquisition costs. The auditors' report outlines the scope of their audit and their opinion.

ICBC Board of Directors and Executives

Front row from left:

Lisa Pankratz – *Board Member*

Donnie Wing – *Vice-President Investments & Corporate Development*

Alice Downing – *Board Member*

Bill Goble – *Chief Operating Officer*

P. Nicholas (Nick) Geer – *Board Chair, President & CEO*

Shelley Milne – *Vice-President and General Counsel*

Felix Ts'o – *Board Member*

Susan Paish – *Board Member*

Back row from left:

Bob Quart – *Board Vice-Chair*

John Madden – *Vice-President Human Resources*

Gordon Smith – *President, ICBC Properties Ltd.*

Geri Prior – *Vice-President Finance & Chief Financial Officer*

Ted Smith – *Board Member*

Judy Maddocks – *Senior Vice-President Insurance*

Terry Squire – *Board Member*

Keith Stewart – *Vice-President Information Services*

Leslie Cliff – *Board Member*

Board of Directors

Mandate: To foster the corporation's short and long-term success consistent with the Board's responsibilities to the people of BC as represented by the Government of BC.

Audit Committee

Purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing:

i) financial information
ii) systems of internal controls and risk management, and
iii) all audit processes.

Bob Quart (Chair)
Lisa Pankratz
Terry Squire
Nick Geer*

Investment Committee

Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.

Leslie G. Cliff (Chair)
Lisa Pankratz
Felix Ts'o
Nick Geer*
Diane Fulton*

Governance Committee

Purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.

Bob Quart (Chair)
Lisa Pankratz
Terry Squire
Nick Geer*

Human Resources and Compensation Committee

Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policy.

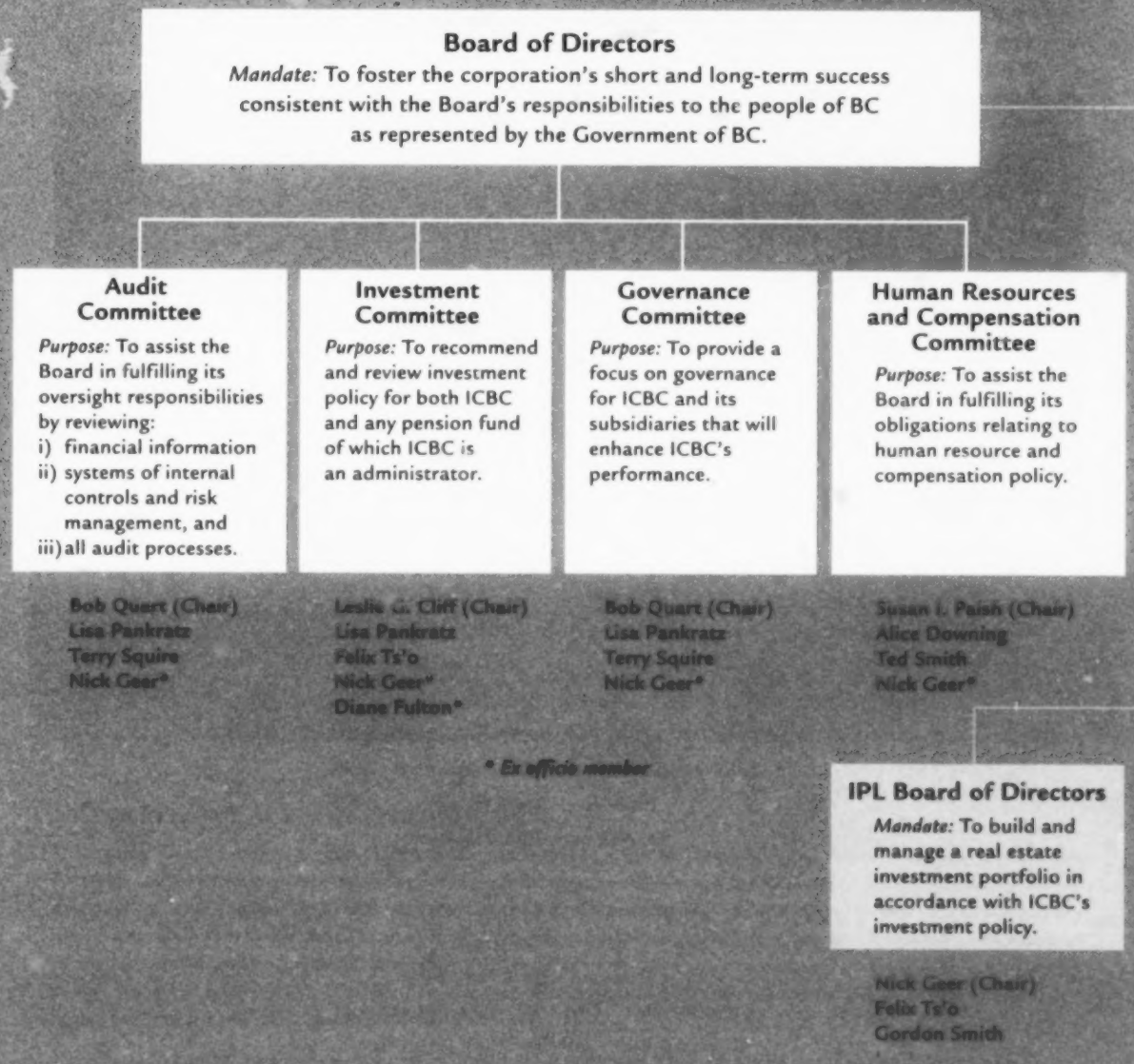
Susan I. Paish (Chair)
Alice Downing
Ted Smith
Nick Geer*

**** Ex officio member***

IPL Board of Directors

Mandate: To build and manage a real estate investment portfolio in accordance with ICBC's investment policy.

Nick Geer (Chair)
Felix Ts'o
Gordon Smith


Board of Directors
Mandate: To foster the corporation's short and long-term success consistent with the Board's responsibilities to the people of BC as represented by the Government of BC.
Audit Committee
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i) financial information
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Bob Quert (Chair)
Lisa Pankratz
Terry Squire
Nick Geer*
Investment Committee
Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.
Leslie G. Cliff (Chair)
Lisa Pankratz
Felix Ts'o
Nick Geer*
Diane Fulton*
Governance Committee
Purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.
Bob Quart (Chair)
Lisa Pankratz
Terry Squire
Nick Geer*
Human Resources and Compensation Committee
Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policy.
Susan I. Paish (Chair)
Alice Downing
Ted Smith
Nick Geer*
* Ex officio member
IPL Board of Directors
Mandate: To build and manage a real estate investment portfolio in accordance with ICBC's investment policy.
Nick Geer (Chair)
Felix Ts'o
Gordon Smith

Corporate Governance

Governance defines the roles, relationships, powers and accountability among shareholders, the Board of Directors and management. Governance of a crown corporation also requires that responsibility be clearly articulated for meeting public policy objectives. For ICBC, these requirements are contained in the *Insurance Corporation Act*, the *Budget Transparency & Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*.

As a crown corporation, ICBC's board members are appointed by the Lieutenant-Governor-in-Council. The Board currently consists of nine members with a broad range of expertise and experience. The individual members each play an important role and also contribute as members of committees of the Board. The Board of Directors guides the Corporation in fulfilling its mandate, and sets direction for ICBC. In 2002, the Board and management developed a new vision and mission for the corporation. Corporate goals were also established to guide the corporation, and will become the basis upon which accountability and performance will be evaluated. With the departure of the previous President, the Board Chair has been appointed President & CEO. Consistent with best governance practices, a Vice Chair has been appointed to ensure the Board maintains the required level of independence and oversight.

During the year, the Board underwent an evaluation of the Board's effectiveness to identify areas of improvement. A comprehensive review of governance processes was undertaken and a Governance Manual was developed with guidelines outlining how the Board will carry out its duties of stewardship and accountability. The guidelines developed and processes established are consistent with best governance practices typical of a successful private enterprise.

As part of the governance review, the responsibility of the Board for the oversight of risk management was also clearly defined. The Board and management reviewed and prioritized major risks facing the corporation and mitigation strategies were developed. These will be monitored on a regular basis.

ICBC has one wholly owned subsidiary, ICBC Properties Ltd. (IPL). IPL was created in 1999 with responsibility for managing real estate held within ICBC's investment portfolio, including real estate development. IPL has its own Board of Directors and executive management team. IPL's governance structure is set out in the company's articles of incorporation and in the Governance Manual. The subsidiary's Board of Directors is accountable to ICBC's Board of Directors and consists of three members. Of these members, two directors also serve on ICBC's Board of Directors. Collectively, they provide relevant business, investment and real estate experience to the operations of the subsidiary.

The chart to the left shows the members of ICBC's Board of Directors, Committees of the Board and mandates.

With the recent outcomes from the Core Services Review process, ICBC will come under the oversight of an independent, arm's-length regulatory body established by government. The role of the regulator will be to protect the interests of policyholders and to ensure ICBC is operating in the best interests of customers. It is anticipated that the regulator will play a role in ICBC's governance structure in the future.

ICBC Locations

GREATER VANCOUVER

Claims Centres*
- Burnaby (2)
- Coquitlam
- Maple Ridge
- New Westminster
- North Vancouver
- Richmond
- Squamish
- Vancouver (4)

Driver Services Centres**
- Burnaby (1)
- Coquitlam (1)
- North Vancouver
- Richmond
- Vancouver (3)

Weigh Scales
- Deas Tunnel

FRASER VALLEY

Claims Centres*
- Abbotsford
- Chilliwack
- Langley
- Surrey (2)

Driver Services Centres**
- Abbotsford
- Langley
- Mission
- Surrey

Weigh Scales
- Hope (3)
- Nordel Way
- Pacific (Surrey)
- Patullo Bridge
- Port Mann (2)
- Abbotsford

VANCOUVER ISLAND

Claims Centres*
- Campbell River
- Courtenay
- Duncan
- Nanaimo
- Port Alberni
- Powell River
- Victoria

Driver Services Centres**
- Nanaimo
- Victoria (2)

Weigh Scales
- Duncan (2)
- Parksville
- Saanich

SOUTHERN INTERIOR

Claims Centres*
- Cranbrook
- Kamloops
- Kelowna
- Nelson
- Penticton
- Salmon Arm
- Trail
- Vernon

Driver Services Centres**
- Kamloops
- Kelowna

Weigh Scales
- Cache Creek
- Castlegar
- Golden
- Kaleden
- Kamloops (2)
- Kelowna
- Midway
- Sparwood
- Vernon
- Yahk
- Rossland

NORTH/CENTRAL REGION

Claims Centres*
- Dawson Creek
- Fort St. John
- Prince George
- Prince Rupert
- Quesnel
- Smithers
- Terrace
- Williams Lake

Driver Services Centres**
- Prince George

Weigh Scales
- Chetwynd
- Dawson Creek
- Fort Nelson
- Fort St. John
- Pouce Coupe
- Prince George (2)
- Quesnel
- Terrace
- Tete Jaune Cache
- Vanderhoof
- Williams Lake

* The Corporation also operates many satellite claims service locations across B.C.

** In many B.C. communities, vehicle-related services are also available from B.C. Government Agents' offices.